

PEOPLES FINANCIAL CORP /MS/  
Form 10-K  
March 14, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017      Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi  
(State or other jurisdiction of incorporation or organization)

64-0709834  
(I.R.S. Employer Identification Number)

Lameuse and Howard Avenues, Biloxi, Mississippi 39533  
(Address of principal executive offices) (Zip code)

228-435-5511  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Name of Each Exchange on

Title of Each Class

Which Registered

None

None

Securities registered pursuant to Section 12 (g) of the Act:

Common, \$1.00 Par Value

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES \_\_\_ NO X

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES \_\_\_ NO X

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO \_\_\_

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No \_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \_\_\_ Accelerated filer \_\_\_ Non-Accelerated filer \_\_\_ Smaller reporting company X  
Emerging growth company \_\_\_

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. \_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES \_\_\_ NO X

At June 30, 2017, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$41,181,000.

On February 16, 2018, the registrant had outstanding 5,083,186 shares of common stock, par value of \$1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the Annual Meeting of Shareholders to be held April 25, 2018, are incorporated by reference into Part III of this report.

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**PART I**

**ITEM 1 - DESCRIPTION OF BUSINESS**

**BACKGROUND AND CURRENT OPERATIONS**

**General**

Peoples Financial Corporation (the Company) was organized as a one bank holding company in 1985. The Company is headquartered in Biloxi, Mississippi. At December 31, 2017, the Company operated in the state of Mississippi through its wholly-owned subsidiary, The Peoples Bank, Biloxi, Mississippi (the Bank). The Company is engaged, through this subsidiary, in the banking business. The Bank is the Company's principal asset and primary source of revenue.

The Main Office, operations center and asset management and trust services of the Bank are located in downtown Biloxi, MS. At December 31, 2017, the Bank also had 17 branches located throughout Harrison, Hancock, Jackson and Stone Counties. The Bank has automated teller machines (ATM) at its Main Office, all branch locations and at numerous non-proprietary locations.

**The Bank Subsidiary**

The Company's wholly-owned bank subsidiary was originally chartered in 1896 in Biloxi, Mississippi, as The Peoples Bank of Biloxi. The Bank is a state chartered bank whose deposits are insured under the Federal Deposit Insurance Act. The Bank is not a member of the Federal Reserve System. The legal name of the Bank was changed to The Peoples Bank, Biloxi, Mississippi, during 1991.

Most of the Bank's business originates from Harrison, Hancock, Stone and Jackson Counties in Mississippi; however, some business is obtained from other counties in southern Mississippi, southern Louisiana and southern Alabama.

**Nonbank Subsidiary**

In 1985, PFC Service Corp. (PFC) was chartered and began operations as the second wholly-owned subsidiary of Peoples Financial Corporation. The purpose of PFC was principally the leasing of automobiles and equipment. PFC is inactive at this time.

**Products And Services**

The Bank currently offers a variety of services to individuals and small to middle market businesses within its trade area. The Company's trade area 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.

The Bank's primary lending focus is to offer business, commercial, real estate, construction, personal and installment loans, with an emphasis on commercial lending. The Bank's exposure for out of area, residential and land development, construction and commercial real estate loans as well as concentrations in the hotel/motel and gaming industries are monitored by the Company.



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Each loan officer has board approved lending limits on the principal amount of secured and unsecured loans that can be approved for a single borrower without prior approval of the senior credit committee. All loans, however, must meet the credit underwriting standards and loan policies of the Bank.

Deposit services include interest bearing and non-interest bearing checking accounts, savings accounts, certificates of deposit, and IRA accounts. The Bank generally provides depository accounts to individuals; small and middle market businesses; and state, county and local government entities in its trade area at interest rates consistent with market conditions.

The Bank's Asset Management and Trust Services Department ( Trust Department ) offers personal trust, agencies and estate services, including living and testamentary trusts, executorships, guardianships, and conservatorships. Benefit accounts maintained by the Trust Department primarily include self-directed individual retirement accounts. Escrow management, stock transfer and bond paying agency accounts are available to corporate customers.

The Bank also offers a variety of other services including safe deposit box rental, wire transfer services, night drop facilities, collection services, cash management and internet banking. The Bank has 32 ATMs at its branch locations and other off-site, non-proprietary locations, providing bank customers access to their depository accounts. The Bank is a member of the PULSE network.

There has been no significant change in the kind of services offered by the Bank during the last three fiscal years.

## Customers

The Bank has a large number of customers acquired over a period of many years and is not dependent upon a single customer or upon a few customers. The Bank also provides services to customers representing a wide variety of industries including seafood, retail, hospitality, hotel/motel, gaming and construction. While the Company has pursued external growth strategies on a limited basis, its primary focus has been on internal growth by the Bank through the establishment of new branch locations and an emphasis on strong customer relationships.

## Employees

At December 31, 2017, the Bank employed 156 full-time employees and 10 part-time employees. The Company has no employees who are not employees of the bank subsidiary. Through the Bank, employees receive salaries and benefits, which include 401(k) and ESOP plans, cafeteria plan, and life, health and disability insurance. The Company considers its relationship with its employees to be good.

## Competition

The Bank is in direct competition with numerous local and regional commercial banks as well as other non-bank institutions. Interest rates paid and charged on deposits and loans are the primary competitive factors within the Bank's trade area. The Bank also competes for deposits and loans with insurance companies, finance companies, brokerage houses and credit unions. The principal competitive factors in the markets for deposits and loans are interest rates paid and charged. The

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Company also competes through efficiency, quality of customer service, the range of services and products it provides, the convenience of its branch and ATM locations and the accessibility of its staff. The Bank intends to continue its strategy of being a local, community bank offering traditional bank services and providing quality service in its local trade area.

## Miscellaneous

The Bank holds no patents, licenses (other than licenses required to be obtained from appropriate bank regulatory agencies), franchises or concessions.

The Bank has not engaged in any research activities relating to the development of new services or the improvement of existing services except in the normal course of its business activities. The Bank presently has no plans for any new line of business requiring the investment of a material amount of total assets.

## Available Information

The Company maintains an internet website at [www.thepeoples.com](http://www.thepeoples.com). The Company's Annual Report to Shareholders is available on the Company's website. Also available through the website is a link to the Company's filings with the Securities and Exchange Commission (SEC). Information on the Company's website is not incorporated into this Annual Report on Form 10-K or the Company's other securities filings and is not part of them.

## REGULATION AND SUPERVISION

### General

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Atlanta (Federal Reserve). The Company is required to file semi-annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve also conducts examinations of the Company.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

it may acquire direct or indirect ownership or control of any voting shares of any other bank holding company if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the other bank holding company;

it may acquire direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;

it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or

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it may merge or consolidate with any other bank holding company. The Bank Holding Company Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues focuses, in part, on the performance under the Community Reinvestment Act of 1977, both of which are discussed below in more detail.

Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

the bank holding company has registered securities under Section 12 of the Exchange Act of 1934, as amended ( Exchange Act ); or

no other person owns a greater percentage of that class of voting securities immediately after the transaction. The Company's common stock is registered under Section 12 of the Exchange Act. The regulations provide a procedure for challenging rebuttable presumptions of control.

The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries and acquiring or retaining direct or indirect control of any company engaged in any activities other than activities closely related to banking or managing or controlling banks. In determining whether a particular activity is permissible, the Federal Reserve considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

The Bank is incorporated under the laws of the State of Mississippi and is subject to the applicable provisions of Mississippi banking laws and the laws of the various states in which it operates, as well as federal law. The Bank is subject to the supervision of the Mississippi Department of Banking and Consumer Finance ( MDBCF ) and to regular examinations by that department. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC ) and,



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therefore, the Bank is subject to the provisions of the Federal Deposit Insurance Act and to examination by the FDIC.

Federal Reserve policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) codifies this policy as a statutory requirement. This support may be required by the Federal Reserve at times when the Company might otherwise determine not to provide it. In addition, if a bank holding company commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the Federal Reserve s invoking its source-of-strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment, ahead of other creditors of the bank holding company.

In addition, the Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the SEC under federal securities laws. The common stock of the Company is listed on the OTCQX Best Market, such listing subjecting the Company to compliance with the market s requirements with respect to reporting and other rules and regulations.

### The Dodd-Frank Act

The Dodd-Frank Act, enacted in 2010, significantly restructured financial regulation in the United States, including through the creation of a new resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and through numerous other provisions intended to strengthen the financial services sector.

The Dodd-Frank Act established the Consumer Financial Protection Bureau ( CFPB ), which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies, including financial institutions, with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also required the issuance of numerous implementing regulations, many of which have not yet been issued.

In January 2013, the CFPB issued final regulations governing mainly consumer mortgage lending. One rule imposes additional requirements on lenders, including rules designed to require lenders to ensure borrowers ability to repay their mortgage. The CFPB also finalized a rule on escrow accounts for higher priced mortgage loans and a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act. The CFPB also issued final rules implementing provisions of the Dodd-Frank Act that relate to mortgage servicing. In November 2013, the CFPB issued a final rule on integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act, compliance with which was required by August 1, 2015.

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The Dodd-Frank Act authorizes national and state banks to establish de novo branches in other states to the same extent as a bank chartered by that state would be so permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks are now able to enter new markets more freely.

Recently, the CFPB and banking regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the unfair or deceptive acts or practices ( UDAP ) law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to unfair, deceptive or abusive acts or practices, which has been delegated to the CFPB for supervision.

Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years. The overall financial impact on the Company and its subsidiaries or the financial services industry generally cannot be anticipated at this time.

## Dividends

The Company is a legal entity that is separate and distinct from its subsidiaries. The primary source of funds for dividends paid to the Company's shareholders are dividends paid to the Company by the Bank. Various federal and state laws limit the amount of dividends that the Bank may pay to the Company without regulatory approval. Under Mississippi law, the Bank must obtain non-objection of the Commissioner of the Mississippi Department of Banking and Consumer Finance ( MDBCF ) prior to paying any dividend on the Bank's common stock. In addition, the Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4, on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve's view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position, or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends.

## Capital

The Federal Reserve has issued risk-based capital ratio and leverage ratio guidelines for bank holding companies. The risk-based capital ratio guidelines establish a systematic analytical framework that:

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makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations;

takes off-balance sheet exposures into explicit account in assessing capital adequacy; and

minimizes disincentives to holding liquid, low-risk assets.

Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based ratio represents capital divided by total risk-weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements promulgated by the FDIC.

Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. Total capital is Tier 1 plus Tier 2 capital. These two tiers are:

Tier 1, or core capital, that includes total equity plus qualifying capital securities and minority interests, excluding unrealized gains and losses accumulated in other comprehensive income, and non-qualifying intangible and servicing assets; and

Tier 2, or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, mandatory convertible securities, qualifying subordinated debt, and the allowance for credit losses, up to 1.25% of risk-weighted assets.

The Federal Reserve and the other federal banking regulators require that all intangible assets (net of deferred tax), except originated or purchased mortgage-servicing rights, non-mortgage servicing assets, and purchased credit card relationships, be deducted from Tier 1 capital. However, the total amount of these items included in Total capital cannot exceed 100% of an institution's Tier 1 capital.

Under the risk-based capital guidelines existing prior to January 1, 2015, bank holding companies were required to maintain a risk-based ratio of 8%, with 4% being Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when they believe an institution's circumstances warrant.

Under the leverage guidelines existing prior to January 1, 2015, bank holding companies were required to maintain a leverage ratio of at least 3%. The minimum ratio was applicable only to financial institutions that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate risk exposure, and the highest regulatory rating. Financial institutions not meeting these criteria were required to maintain a minimum Tier 1 leverage ratio of 4%.

The guidelines also provided that bank holding companies experiencing internal growth or making acquisitions would be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the



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Federal Reserve indicated that it would consider a tangible Tier 1 capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

Failure to meet applicable capital guidelines could subject the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under Prompt Corrective Action as applicable to under-capitalized institutions.

## New Capital Rules

On July 2, 2013, the Federal Reserve approved the final rule for BASEL III capital requirements for all bank holding companies chartered in the United States. The rule was subsequently approved by the FDIC on July 9, 2013, and made applicable to the Bank as well. The rule implements in the United States certain of the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The major provisions of the new rule applicable to the Company and the Bank are:

The new rule implements higher minimum capital requirements, includes a new common equity Tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier 1 capital, additional Tier 1 capital, or Tier 2 capital. These enhancements both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the United States banking system to deal with adverse economic conditions.

The new minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6.0% which is an increase from 4.0%, and a total capital ratio that remains at 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%.

The new rule improves the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments such as trust preferred securities in Tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets, and certain investments in the capital of unconsolidated financial institutions. In addition, the new rule requires that most regulatory capital deductions be made from common equity Tier 1 capital.

Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk weighted assets. Phase-in of the capital conservation buffer requirements began on January 1, 2016.

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Subsequent to the completion of a phase-in period, a banking organization with a buffer greater than 2.5% would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. When the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds.

The new rule also increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors. The transition period for implementation of Basel III is January 1, 2015, through December 31, 2018.

## Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991, known as FDICIA, requires federal banking regulatory authorities to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized.

An institution is deemed to be:

well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater (6% before January 1, 2015), a Tier 1 leverage ratio of 5% or greater, and, after January 1, 2015, a common equity Tier 1 capital ratio of 6.5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure;

adequately-capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater (4% before January 1, 2015), generally, a Tier 1 leverage ratio of 4% or greater, and, after January 1, 2015, a common equity Tier 1 capital ratio of 4.5% or greater, and the institution does not meet the definition of a well-capitalized institution;

under-capitalized if it does not meet one or more of the adequately-capitalized tests;

significantly under-capitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 4% (less than 3% before January 1, 2015), a Tier 1 leverage ratio that is less than 3%, and, after January 1, 2015, a common equity Tier 1 capital ratio that is less than 3%; and

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critically under-capitalized if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

Throughout 2017, the Bank's regulatory capital ratios were in excess of the levels established for well-capitalized institutions.

FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would be under-capitalized after such payment. Under-capitalized institutions are subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan.

If an under-capitalized institution fails to submit an acceptable plan, it is treated as if it is significantly under-capitalized. Significantly under-capitalized institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately-capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks.

Critically under-capitalized institutions may not, beginning 60 days after becoming critically under-capitalized, make any payment of principal or interest on their subordinated debt. In addition, critically under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is well-capitalized and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits.

## Interstate Banking and Branching Legislation

Federal law allows banks to establish and operate a de novo branch in a state other than the bank's home state if the law of the state where the branch is to be located would permit establishment of the branch if the bank were chartered by that state, subject to standard regulatory review and approval requirements. Federal law also allows the Bank to acquire an existing branch in a state in which the bank is not headquartered and does not maintain a branch if the FDIC and MDBCF approve the branch or acquisition, and if the law of the state in which the branch is located or to be located would permit the establishment of the branch if the bank were chartered by that state.

Once a bank has established branches in a state through an interstate merger transaction or through de novo branching, the bank may then establish and acquire additional branches within that state to the same extent that a state chartered bank is allowed to establish or acquire branches within the state.

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Under the Bank Holding Company Act, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank holding company or bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states have opted out of such interstate merger authority prior to such date, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years, and subject to certain deposit market-share limitations.

## FDIC Insurance

The deposits of the Bank are insured by the Deposit Insurance Fund (the DIF), which the FDIC administers. The Dodd-Frank Act permanently increased deposit insurance on most accounts to \$250,000. To fund the DIF, FDIC-insured banks are required to pay deposit insurance assessments to the FDIC. For institutions like the Bank with less than \$10 billion in assets, the amount of the assessment is based on its risk classification. The higher an institution's risk classification, the higher its rate of assessments (on the assumption that such institutions pose a greater risk of loss to the DIF). An institution's risk classification is assigned based on its capital levels and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances.

In addition, all institutions with deposits insured by the FDIC must pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle for the Federal Savings & Loan Insurance Corporation. The annualized assessment rate for the first quarter of fiscal 2018 is .60% of the assessment base and is adjusted quarterly. These assessments will continue until the bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. If the FDIC terminates an institution's deposit insurance, accounts insured at the time of the termination, less withdrawals, will continue to be insured for a period of six months to two years, as determined by the FDIC.

## Affiliate Transactions

The Bank is subject to Regulation W, which comprehensively implements statutory restrictions on transactions between a bank and its affiliates. Regulation W combines the Federal Reserve's interpretations and exemptions relating to Sections 23A and 23B of the Federal Reserve Act. Regulation W and Section 23A place limits on the amount of loans or extensions of credit to, investments in, or certain other transactions with affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. In general, the Bank's affiliates are the Company and its non-bank subsidiary.



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Regulation W and Section 23B prohibit, among other things, a bank from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. Such extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and must not involve more than the normal risk of repayment or present other unfavorable features.

## The Community Reinvestment Act

The Community Reinvestment Act of 1977 ( CRA ) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving bank holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2017, the Bank had a satisfactory rating under CRA.

## Patriot Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as extended and revised by the PATRIOT Improvement and Reauthorization Act of 2005 (the Patriot Act ), requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign financial institutions; and (iii) avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign financial institutions that do not have a physical presence in any country. The Patriot Act also requires that financial institutions follow certain minimum standards to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants.

## Consumer Privacy and Other Consumer Protection Laws

The Bank, like all other financial institutions, is required to maintain the privacy of its customers' non-public, personal information. Such privacy requirements direct financial institutions to:

provide notice to customers regarding privacy policies and practices;

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inform customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties; and

give customers an option to prevent disclosure of such information to non-affiliated third parties.

Under the Fair and Accurate Credit Transactions Act of 2003, the Bank's customers may also opt out of information sharing between and among the Bank and its affiliates.

The Bank is also subject, in connection with its deposit, lending and leasing activities, to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth-in-Savings Act, the Fair Housing Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act, the Currency and Foreign Transactions Reporting Act, the National Flood Insurance Act, the Flood Protection Act, the Bank Secrecy Act, laws and regulations governing unfair, deceptive, and/or abuse acts and practices, the Servicemembers Civil Relief Act, the Housing and Economic Recovery Act, and the Credit Card Accountability Act, among others, as well as various state laws.

### Incentive Compensation

In 2010, the Federal Reserve issued guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The scope and content of banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company's ability to hire, retain and motivate its key employees.

### Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 is applicable to all companies with equity or debt securities registered under the Exchange Act. In particular, the Sarbanes-Oxley Act established: (i)

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requirements for audit committees, including independence, expertise and responsibilities; (ii) certification and related responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

## Effect of Governmental Policies

The Company and the Bank are affected by the policies of regulatory authorities, including the Federal Reserve, the FDIC, and the MDBCF. An important function of the Federal Reserve is to regulate the national money supply. Among the instruments of monetary policy used by the Federal Reserve are: (i) purchases and sales of U.S. government and other securities in the marketplace; (ii) changes in the discount rate, which is the rate any depository institution must pay to borrow from the Federal Reserve; (iii) changes in the reserve requirements of depository institutions; and (iv) indirectly, changes in the federal funds rate, which is the rate at which depository institutions lend money to each other overnight. These instruments are intended to influence economic and monetary growth, interest rate levels, and inflation.

The monetary policies of the Federal Reserve and other governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Because of changing conditions in the national and international economy and in the money markets, as well as the result of actions by monetary and fiscal authorities, it is not possible to predict with certainty future changes in interest rates, deposit levels, loan demand, or the business and results of operations of the Company and the Bank, or whether changing economic conditions will have a positive or negative effect on operations and earnings.

## Other Proposals

Bills occasionally are introduced in the United States Congress and the Mississippi State Legislature and other state legislatures, and regulations occasionally are proposed by the Company's regulatory agencies, any of which could affect the businesses, financial results, and financial condition of the Company or the Bank. Generally it cannot be predicted whether or in what form any particular proposals will be adopted or the extent to which the Company and the Bank may be affected.

## Summary

The foregoing discussion sets forth certain material elements of the regulatory framework applicable to the Company and the Bank. This discussion is a brief summary of the regulatory environment in which the Company and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations. Regulation of financial institutions is intended primarily for the protection of depositors, the deposit insurance fund and the banking system, and generally is not intended for the protection of shareholders. Changes in applicable laws, and their application by regulatory agencies, cannot necessarily be predicted, but could have a material effect on the business and results of the Company and its subsidiaries.

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SUPPLEMENTAL STATISTICAL INFORMATION

Schedules I-A through VII present certain statistical information regarding the Company. This information is not audited and should be read in conjunction with the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements found in Item 8 of this Annual Report on Form 10-K.

Distribution of Assets, Liabilities and Shareholders Equity and Interest Rates and Differentials

Net Interest Income, the difference between Interest Income and Interest Expense, is the most significant component of the Company's earnings. For interest analytical purposes, Management adjusts Net Interest Income to a taxable equivalent basis using a Federal Income Tax rate of 34% in 2017, 2016 and 2015 on tax-exempt items (primarily interest on municipal securities).

Another significant statistic in the analysis of Net Interest Income is the net yield on earning assets. The net yield is the difference between the rate of interest earned on earning assets and the effective rate paid for all funds, non-interest bearing as well as interest bearing. Since a portion of the Bank's deposits do not bear interest, such as demand deposits, the rate paid for all funds is lower than the rate on interest bearing liabilities alone.

Recognizing the importance of interest differential to total earnings, Management places great emphasis on managing interest rate spreads. Although interest differential is affected by national, regional and local economic conditions, including the level of credit demand and interest rates, there are significant opportunities to influence interest differential through appropriate loan and investment policies which are designed to maximize the differential while maintaining sufficient liquidity and availability of incremental funds for purposes of meeting existing commitments and investment in lending and investment opportunities that may arise.

The information included in Schedule I-F presents the change in interest income and interest expense along with the reason(s) for these changes. The change attributable to volume is computed as the change in volume times the old rate. The change attributable to rate is computed as the change in rate times the old volume. The change in rate/volume is computed as the change in rate times the change in volume.

Credit Risk Management and Loan Loss Experience

In the normal course of business, the Bank assumes risks in extending credit. The Bank manages these risks through its lending policies, credit underwriting analysis, appraisal requirements, concentration and exposure limits, loan review procedures and the diversification of its loan portfolio. Although it is not possible to predict loan losses with complete accuracy, Management constantly reviews the characteristics of the loan portfolio to determine its overall risk profile and quality.

Constant attention to the quality of the loan portfolio is achieved by the loan review process. Throughout this ongoing process, Management is advised of the condition of individual loans and of the quality profile of the entire loan portfolio. Any loan or portion thereof which is classified loss by regulatory examiners or which is determined by Management to be uncollectible because

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of such factors as the borrower's failure to pay interest or principal, the borrower's financial condition, economic conditions in the borrower's industry or the inadequacy of underlying collateral, is charged-off.

Provisions are charged to operating expense based upon historical loss experience, and additional amounts are provided when, in the opinion of Management, such provisions are not adequate based upon the current factors affecting loan collectibility.

The allocation of the allowance for loan losses by loan category is based on the factors mentioned in the preceding paragraphs. Accordingly, since all of these factors are subject to change, the allocation is not necessarily indicative of the breakdown of future losses.

Further information concerning the provision for loan losses and the allowance for loan losses is presented in Management's Discussion and Analysis in Item 7 of this Annual Report on Form 10-K and in Note A - Business and Summary of Significant Accounting Policies to the 2017 Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

### Return on Equity and Assets

The Company's results and key ratios for 2013 - 2017 are summarized in the Selected Financial Data in Item 6 and Management's Discussion and Analysis in Item 7 of this Annual Report on Form 10-K.

### Dividends

The Company paid a cash dividend of \$.01 per share on October 13, 2017. The Company did not pay a dividend during the years ended December 31, 2016 and 2015.

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## SCHEDULE I-A

## Distribution of Average Assets, Liabilities and Shareholders' Equity (1) (In thousands)

For the Years Ended December 31,	2017	2016	2015
<b>ASSETS:</b>			
Cash and due from banks	\$ 32,457	\$ 39,580	\$ 32,252
Available for sale securities:			
Taxable securities	217,059	188,512	184,458
Non-taxable securities	15,677	20,902	27,744
Other securities	1,014	1,732	2,466
Held to maturity securities:			
Taxable securities	29,389	8,562	452
Non-taxable securities	19,082	19,596	17,645
Other investments	2,735	2,693	2,744
Net loans (2)	284,541	320,383	347,014
Balances due from depository institutions	27,819	31,559	11,221
Other assets	50,342	53,077	56,279
<b>TOTAL ASSETS</b>	<b>\$ 680,115</b>	<b>\$ 686,596</b>	<b>\$ 682,275</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
Non-interest bearing deposits	\$ 132,748	\$ 129,788	\$ 119,046
Interest bearing deposits	435,390	437,445	424,704
Total deposits	568,138	567,233	543,750
Other liabilities	21,063	26,554	44,570
Total liabilities	589,201	593,787	588,320
Shareholders' equity	90,914	92,809	93,955
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 680,115</b>	<b>\$ 686,596</b>	<b>\$ 682,275</b>

(1) All averages are computed on a daily basis.

(2) Gross loans and discounts, net of unearned income and allowance for loan losses.



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## SCHEDULE I-B

## Average (1) Amount Outstanding for Major Categories of Interest Earning Assets

## And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2017	2016	2015
<b>INTEREST EARNING ASSETS:</b>			
Loans (2)	\$ 290,329	\$ 327,819	\$ 356,294
Balances due from depository institutions	27,819	31,559	11,221
Available for sale securities:			
Taxable securities	217,059	188,512	184,458
Non-taxable securities	15,677	20,902	27,744
Other securities	1,014	1,732	2,466
Held to maturity securities:			
Taxable securities	29,389	8,562	452
Non-taxable securities	19,082	19,596	17,645
<b>TOTAL INTEREST EARNING ASSETS</b>	<b>\$ 600,369</b>	<b>\$ 598,682</b>	<b>\$ 600,280</b>
<b>INTEREST BEARING LIABILITIES:</b>			
Savings and negotiable interest bearing deposits	\$ 353,352	\$ 359,801	\$ 349,782
Time deposits	82,038	77,644	74,923
Other borrowed funds	2,237	8,240	25,519
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>\$ 437,627</b>	<b>\$ 445,685</b>	<b>\$ 450,224</b>

(1) All averages are computed on a daily basis.

(2) Net of unearned income. Includes nonaccrual loans



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## SCHEDULE I-C

## Interest Earned or Paid on Major Categories of Interest Earning Assets

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2017	2016	2015
<b>INTEREST EARNED ON:</b>			
Loans	\$ 12,970	\$ 14,232	\$ 14,759
Balances due from depository institutions	420	277	63
Available for sale securities:			
Taxable securities	3,298	2,558	3,178
Non-taxable securities	864	1,123	1,338
Other securities	26	22	22
Held to maturity securities:			
Taxable securities	753	184	9
Non-taxable securities	717	725	600
<b>TOTAL INTEREST EARNED (1)</b>	<b>\$ 19,048</b>	<b>\$ 19,121</b>	<b>\$ 19,969</b>
<b>INTEREST PAID ON:</b>			
Savings and negotiable interest bearing deposits	\$ 739	\$ 437	\$ 306
Time deposits	637	457	371
Other borrowed funds	47	131	198
<b>TOTAL INTEREST PAID</b>	<b>\$ 1,423</b>	<b>\$ 1,025</b>	<b>\$ 875</b>

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2017, 2016 and 2015. See disclosure of non-GAAP financial measures on pages 49 and 50.

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## SCHEDULE I-D

Average Interest Rate Earned or Paid for Major Categories of  
Interest Earning Assets And Interest Bearing Liabilities

For the Years Ended December 31,	2017	2016	2015
<b>AVERAGE RATE EARNED ON:</b>			
Loans	4.47%	4.34%	4.14%
Balances due from depository institutions	1.51%	.88%	.56%
Available for sale securities:			
Taxable securities	1.52%	1.36%	1.72%
Non-taxable securities	5.51%	5.37%	4.82%
Other securities	2.56%	1.27%	.89%
Held to maturity securities:			
Taxable securities	2.56%	2.15%	1.99%
Non-taxable securities	3.76%	3.70%	3.40%
<b>TOTAL (weighted average rate)(1)</b>	<b>3.17%</b>	<b>3.19%</b>	<b>3.33%</b>
<b>AVERAGE RATE PAID ON:</b>			
Savings and negotiable interest bearing deposits	.21%	.12%	.09%
Time deposits	.78%	.59%	.50%
Other borrowed funds	2.10%	1.59%	.78%
<b>TOTAL (weighted average rate)</b>	<b>.33%</b>	<b>.23%</b>	<b>.19%</b>

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2017, 2016 and 2015. See disclosure of non-GAAP financial measures on pages 49 and 50.

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## SCHEDULE I-E

## Net Interest Earnings and Net Yield on Interest Earning Assets

(In thousands, except percentages)

For the Years Ended December 31,	2017	2016	2015
Total interest income (1)	\$ 19,048	\$ 19,121	\$ 19,969
Total interest expense	1,423	1,025	875
Net interest earnings	\$ 17,625	\$ 18,096	\$ 19,094
Net yield on interest earning assets	2.94%	3.02%	3.18%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2017, 2016 and 2015. See disclosure of non-GAAP financial measures on pages 49 and 50.

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## SCHEDULE I-F

## Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2017	2016	Increase (Decrease)	Volume	Rate	Rate/Volume
<b>INTEREST EARNED ON:</b>						
Loans (1)	\$ 12,970	\$ 14,232	\$ (1,262)	\$ (1,628)	\$ 413	\$ (47)
Balances due from depository institutions	420	277	143	(33)	199	(23)
Available for sale securities:						
Taxable securities	3,298	2,558	740	387	306	47
Non-taxable securities	864	1,123	(259)	(281)	29	(7)
Other securities	26	22	4	(10)	23	(9)
Held to maturity securities:						
Taxable securities	753	184	569	448	35	86
Non-taxable securities	717	725	(8)	(19)	11	
<b>TOTAL INTEREST EARNED (2)</b>	<b>\$ 19,048</b>	<b>\$ 19,121</b>	<b>\$ (73)</b>	<b>\$ (1,136)</b>	<b>\$ 1,016</b>	<b>\$ 47</b>
<b>INTEREST PAID ON:</b>						
Savings and negotiable interest bearing deposits	\$ 739	\$ 437	\$ 302	\$ (8)	\$ 315	\$ (5)
Time deposits	637	457	180	26	146	8
Other borrowed funds	47	131	(84)	(95)	42	(31)
<b>TOTAL INTEREST PAID</b>	<b>\$ 1,423</b>	<b>\$ 1,025</b>	<b>\$ 398</b>	<b>\$ (77)</b>	<b>\$ 503</b>	<b>\$ (28)</b>

(1) Loan fees of \$338 and \$389 for 2017 and 2016, respectively, are included in these figures.

(2) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2017 and 2016. See disclosure of non-GAAP financial measures on pages 49 and 50.

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## SCHEDULE I-F (continued)

## Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2016	2015	Increase (Decrease)	Volume	Rate	Rate/Volume
<b>INTEREST EARNED ON:</b>						
Loans (1)	\$ 14,232	\$ 14,759	\$ (527)	\$ (1,180)	\$ 709	\$ (56)
Balances due from depository institutions	277	63	214	114	35	65
Available for sale securities:						
Taxable securities	2,558	3,178	(620)	70	(675)	(15)
Non-taxable securities	1,123	1,338	(215)	(330)	153	(38)
Other securities	22	22		(7)	9	(2)
Held to maturity securities:						
Taxable securities	184	9	175	161	1	13
Non-taxable securities	725	600	125	66	53	6
<b>TOTAL INTEREST EARNED (2)</b>	<b>\$ 19,121</b>	<b>\$ 19,969</b>	<b>\$ (848)</b>	<b>\$ (1,106)</b>	<b>\$ 285</b>	<b>\$ (27)</b>
<b>INTEREST PAID ON:</b>						
Savings and negotiable interest bearing deposits	\$ 437	\$ 306	\$ 131	\$ 9	\$ 119	\$ 3
Time deposits	457	371	86	13	70	3
Other borrowed funds	131	198	(67)	(134)	207	(140)
<b>TOTAL INTEREST PAID</b>	<b>\$ 1,025</b>	<b>\$ 875</b>	<b>\$ 150</b>	<b>\$ (112)</b>	<b>\$ 396</b>	<b>\$ (134)</b>

(1) Loan fees of \$389 and \$333 for 2016 and 2015, respectively, are included in these figures.

(2) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2016 and 2015. See disclosure of non-GAAP financial measures on pages 49 and 50.

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## SCHEDULE II-A

## Book Value of Securities Portfolio

(In thousands)

December 31,	2017	2016	2015
<b>Available for sale securities:</b>			
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	\$ 230,736	\$ 215,157	\$ 178,430
States and political subdivisions	14,470	17,963	23,727
Other securities	458	458	650
<b>Total</b>	<b>\$ 245,664</b>	<b>\$ 233,578</b>	<b>\$ 202,807</b>
<b>Held to maturity securities:</b>			
U.S. Government Agencies	\$ 8,185	\$ 10,009	\$
States and political subdivisions	42,978	36,677	17,507
Corporate bonds		1,464	1,518
<b>Total</b>	<b>\$ 51,163</b>	<b>\$ 48,150</b>	<b>\$ 19,025</b>

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## SCHEDULE II-B

## Maturity Securities Portfolio at December 31, 2017

## And Weighted Average Yields of Such Securities

(In thousands, except percentage data)

December 31,	Within one year		Maturity After one year but within five years		After five years but within ten years		After ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<b>Available for sale securities:</b>								
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	\$ 44,840	1.00%	\$ 80,585	1.47%	\$ 45,691	2.05%	\$ 59,620	2.65%
States and political subdivisions	2,885	3.35%	8,284	3.87%	2,949	3.78%	352	4.20%
Other securities							458	2.00%
<b>Total</b>	<b>\$ 47,725</b>	<b>1.42%</b>	<b>\$ 88,869</b>	<b>1.98%</b>	<b>\$ 48,640</b>	<b>2.23%</b>	<b>\$ 60,430</b>	<b>2.66%</b>
<b>Held to maturity securities:</b>								
U.S. Government agencies	\$		\$ 3,185	2.00%	\$ 5,000	2.04%	\$	
States and political subdivisions	694	2.85%	11,150	2.64%	\$ 15,555	2.69%	15,579	3.38%
<b>Total</b>	<b>\$ 694</b>	<b>2.85%</b>	<b>\$ 14,335</b>	<b>2.53%</b>	<b>\$ 20,555</b>	<b>2.57%</b>	<b>\$ 15,579</b>	<b>3.38%</b>

Note: The weighted average yields are calculated on the basis of cost. Average yields on investments in states and political subdivisions are based on their contractual yield. Available for sale securities are stated at fair value and held to maturity securities are stated at amortized cost.

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## SCHEDULE III-A

## Loan Portfolio

## Loans by Type Outstanding (1) (In thousands)

December 31,	2017	2016	2015	2014	2013
Real estate, construction	\$ 32,211	\$ 32,794	\$ 36,347	\$ 44,129	\$ 64,390
Real estate, mortgage	206,528	226,157	243,540	266,158	259,082
Loans to finance agricultural production			30	1,230	726
Commercial and industrial	35,174	48,361	50,520	37,441	42,653
Loans to individuals for household, family and other consumer expenditures	5,310	6,264	6,548	7,538	7,139
Obligations of states and political subdivisions	839	1,646	428	5,462	1,023
All other loans	387	133	144	449	336
Total	\$ 280,449	\$ 315,355	\$ 337,557	\$ 362,407	\$ 375,349

(1) No foreign debt outstanding.



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## SCHEDULE III-B

## Maturities and Sensitivity to Changes in

Interest Rates of the Loan Portfolio as of December 31, 2017

(In thousands)

December 31,	Maturity			Total
	One year or less	Over one year through 5 years	Over 5 years	
Real estate, construction	\$ 8,272	\$ 7,111	\$ 16,828	\$ 32,211
Real estate, mortgage	10,299	83,696	112,533	206,528
Commercial and industrial	15,160	17,175	2,839	35,174
Loans to individuals for household, family and other consumer expenditures	1,612	3,244	454	5,310
Obligations of states and political subdivisions			839	839
All other loans	163	224		387
<b>Total</b>	<b>\$ 35,506</b>	<b>\$ 111,450</b>	<b>\$ 133,493</b>	<b>\$ 280,449</b>
Loans with pre-determined interest rates	\$ 6,827	\$ 86,721	\$ 59,539	\$ 153,087
Loans with floating interest rates	28,679	24,729	73,954	127,362
<b>Total</b>	<b>\$ 35,506</b>	<b>\$ 111,450</b>	<b>\$ 133,493</b>	<b>\$ 280,449</b>

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## SCHEDULE III-C

## Non-Performing Loans (In thousands)

December 31,	2017	2016	2015	2014	2013
Loans accounted for on a nonaccrual basis (1)	\$ 13,810	\$ 11,854	\$ 15,186	\$ 33,298	\$ 26,171

Loans which are contractually past due 90 or more days as to interest or principal payment, but are not included above

146	763	651
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(1) The Bank 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. See Note A Business and Summary of Significant Accounting Policies and Note C Loans to the 2017 Consolidated Financial Statements in Item 8 in this Annual Report on Form 10-K for discussion of impaired loans.

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## SCHEDULE IV-A

## Summary of Loan Loss Expenses

(In thousands, except percentage data)

December 31,	2017	2016	2015	2014	2013
Average amount of loans outstanding (1)(2)	\$ 290,329	\$ 327,819	\$ 356,294	\$ 362,649	\$ 405,463
Balance of allowance for loan losses at beginning of period	\$ 5,466	\$ 8,070	\$ 9,206	\$ 8,934	\$ 8,857
Loans charged-off:					
Commercial, financial and agricultural	36	509	275	4,930	499
Consumer and other	243	3,013	3,833	2,800	9,623
Total loans charged-off	279	3,522	4,108	7,730	10,122
Recoveries of loans:					
Commercial, financial and agricultural	11	62	19	277	126
Consumer and other	839	288	371	321	412
Total recoveries	850	350	390	598	538
Net loans charged-off (recovered)	(571)	3,172	3,718	7,132	9,584
Provision for loan losses charged to operating expense	116	568	2,582	7,404	9,661
Balance of allowance for loan losses at end of period	\$ 6,153	\$ 5,466	\$ 8,070	\$ 9,206	\$ 8,934
	(.20%)	0.97%	1.04%	1.97%	2.36%

Ratio of net charge-offs  
during period to  
average loans  
outstanding

- (1) Net of unearned income.
- (2) Includes nonaccrual loans.

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## SCHEDULE IV-B

## Allocation of the Allowance for Loan Losses

(In thousands except percentage data)

December 31,	2017		2016		2015		2014		2013	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Real estate, construction	\$ 242	11	\$ 262	10	\$ 778	11	\$ 1,110	12	\$ 1,470	17
Real estate, mortgage	4,574	73	4,150	71	5,964	70	7,182	73	5,825	68
Loans to finance agricultural production					1	1	2	1		1
Commercial and industrial	1,161	12	850	15	1,075	14	587	10	1,338	11
Loans to individuals for household, family and other consumer expenditures	174	2	200	2	247	2	282	2	289	1
Obligations of states and political subdivisions	1	1		1		1		1		1
All other loans	1	1	4	1	5	1	43	1	12	1
Total	\$ 6,153	100	\$ 5,466	100	\$ 8,070	100	\$ 9,206	100	\$ 8,934	100

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## SCHEDULE V

## Summary of Average Deposits and Their Yields

(In thousands, except percentage data)

Years Ended December 31,	2017		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate
Demand deposits in domestic offices	\$ 132,748	N/A	\$ 129,788	N/A	\$ 119,046	N/A
Negotiable interest bearing deposits in domestic offices	295,413	.24%	300,306	.14%	295,238	.07%
Savings deposits in domestic offices	57,939	.05%	59,495	.05%	54,543	.05%
Time deposits in domestic offices	82,038	.78%	77,644	.59%	74,923	.50%
<b>Total</b>	<b>\$ 568,138</b>	<b>.49%</b>	<b>\$ 567,233</b>	<b>.36%</b>	<b>\$ 543,750</b>	<b>.33%</b>

Certificates of deposit in amounts of \$100,000 or more by the amount of time remaining until maturity as of December 31, 2017, are as follows (in thousands):

## Remaining maturity:

3 months or less	\$ 8,225
Over 3 months through 6 months	5,183
Over 6 months through 12 months	12,577
Over 12 months	18,006
<b>Total</b>	<b>\$ 43,991</b>

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## SCHEDULE VI

## Short Term Borrowings

(In thousands, except percentage data)

	2017	2016	2015
Balance, December 31,	\$ 10,000	\$ 5,000	\$ 10,000
Weighted average interest rate at December 31,	1.45%	1.11%	.55%
Maximum outstanding at any month-end during year	\$ 11,198	\$ 8,383	\$ 48,634
Average amount outstanding during year	\$ 1,883	\$ 8,240	\$ 25,680
Weighted average interest rate	2.44%	1.59%	.78%

Note: Short term borrowings include federal funds purchased from other banks and short term borrowings from the Federal Home Loan Bank.

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## SCHEDULE VII

## Interest Sensitivity/Gap Analysis

(In thousands)

December 31, 2017:	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
<b>ASSETS:</b>					
Loans (1)	\$ 123,296	\$ 985	\$ 85,421	\$ 56,937	\$ 266,639
Available for sale securities	10,430	37,295	88,870	109,069	245,664
Held to maturity securities	220	474	14,335	36,134	51,163
<b>Totals</b>	<b>\$ 133,946</b>	<b>\$ 38,754</b>	<b>\$ 188,626</b>	<b>\$ 202,140</b>	<b>\$ 563,466</b>
<b>FUNDING SOURCES:</b>					
Interest bearing deposits	\$ 341,338	\$ 30,738	\$ 30,220	\$	\$ 402,296
Borrowings from FHLB	10,022	39	260	877	11,198
<b>Totals</b>	<b>\$ 351,360</b>	<b>\$ 30,777</b>	<b>\$ 30,480</b>	<b>\$ 877</b>	<b>\$ 413,494</b>
<b>REPRICING/MATURITY GAP:</b>					
Period	\$ (217,414)	\$ 7,977	\$ 158,146	\$ 201,263	
Cumulative	(217,414)	(209,437)	(51,291)	149,972	
Cumulative Gap/Total Assets	(33%)	(32%)	(8%)	23%	

(1) Amounts stated include fixed and variable rate loans that are still accruing interest. Variable rate loans are included in the next period in which they are subject to a change in rate. The principal portions of scheduled payments on fixed instruments are included in the period in which they become due or mature.

Capital Resources

Information about the Company's capital resources is included in Note J Shareholders' Equity to the 2017 Consolidated Financial Statements in this Annual Report on Form 10-K.





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**ITEM 1a - RISK FACTORS**

An investment in the Company's stock involves a number of risks. Investors should carefully consider the following risks as well as the other information in this Annual Report on Form 10-K and the documents incorporated by reference before making an investment decision. The realization of any of the risks described below could have a material adverse effect on the Company and the price of its common stock.

**RISKS RELATING TO THE COMPANY'S BUSINESS**

Greater than expected loan losses may adversely affect the Company's earnings.

The Company's investment and loan portfolio subject the Company to credit risk. Credit losses are always inherent in the banking business but the continuing challenging economic environment in the Company's trade area presents even more exposure to loss. The Company makes various assumptions and judgments about the collectibility of its loan portfolio and provides an allowance for loan losses based on a number of factors. The Company believes that its current allowance for loan losses is adequate and appropriate. However, if the Company's assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. In the event that our loan customers do not repay their loans according to the terms of the loans, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balances, the Company could experience significant loan losses or increase the provision for loan losses or both, which could have a material adverse effect on its operating results. In fact, these conditions were a significant cause of the net losses experienced by the Company in prior years. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

The Company has a high concentration of loans secured by real estate, and a downturn in the real estate market could materially and adversely affect earnings.

A significant portion of the Company's loan portfolio is dependent on real estate. At December 31, 2017, approximately 85% of the Company's loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. Further deterioration in the value of real estate generally or in the Company's trade area specifically could significantly impair the value of the collateral and restrict the ability to sell the collateral upon foreclosure. Furthermore, it is likely that the Company would be required to increase the provision for loan losses. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate value or to increase the allowance for loan losses, the Company's profitability and financial condition could be adversely impacted.

The Company has a high concentration of exposure to a number of industries.

The Company has concentrations of loan exposure to the hotel/motel and gaming industries. At December 31, 2017, these exposures were approximately \$34,882,000 and \$26,142,000 or 12% and 9%, respectively, of the total loan portfolio. Economic conditions have negatively impacted tourism, which is one of the major factors for success in these industries. Given the size of these

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relationships, a significant loss in either of these portfolios could materially and adversely affect the Company's earnings.

The continuing economic downturn or a natural disaster, especially one affecting the Company's trade area, could adversely affect the Company.

The Company's trade area includes the Mississippi Gulf Coast and portions of southeast Louisiana and southwest Alabama. With the exception of a number of credits that are considered out of area, the Company's credit exposure is generally limited to the Mississippi Gulf Coast. Although the national economy has shown signs of improvement, local conditions appear to be lagging this trend. As a result, the Company is at risk from continuing adverse business developments in its trade area, including declining real estate value, increasing loan delinquencies, personal and business bankruptcies and unemployment rates. The recent decline in oil prices has affected the economy in southeast Louisiana and may negatively impact the entire trade area. The Company is also at risk to weather-related disasters including hurricanes, floods and tornadoes. If the economy in the Company's trade area experiences a natural disaster or worsening economic conditions, our operating results could be negatively impacted.

Economic factors could negatively impact the Company's liquidity.

In addition to funds provided by its banking activities such as deposits, loan payments and proceeds from the maturity of investment securities, the Company's liquidity needs have traditionally been met through the purchase of federal funds, often on an unsecured basis, and advances from the Federal Home Loan Bank (FHLB). Disruption in the financial markets in previous years negatively impacted the availability of these unsecured funds. As a result, the Company increased its borrowing lines with the FHLB and secured approval to participate in the Federal Reserve's Discount Window Primary Credit Program.

The Company is subject to industry competition which may have an impact on its success.

The profitability of the Company depends on its ability to compete successfully. The Company operates in a highly competitive financial services environment. Certain competitors are larger and may have more resources than the Company. The Company faces competition in its trade area from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, insurance companies, brokerage and investment banking firms and other financial intermediaries. Some of these non-bank competitors are not subject to the same extensive regulations that govern the Company or the Bank and may have greater flexibility in competing for business. Increased competition could require the Company to increase the rates paid on deposits or lower the rates offered on loans, which could adversely affect and also limit future growth and earnings prospects.

The Company's profitability is vulnerable to interest rate fluctuations.

The Company's profitability is dependent to a large extent on net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company is asset sensitive to market interest rates, as its assets reprice more quickly to changes in interest rates than do its liabilities. Interest rates dropped by the unprecedented amount of 400 basis points during 2008 as the Federal Reserve, through its Federal Open Market

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Committee, attempted to stabilize the financial markets, reduce the effects of the recession and stimulate the economy. These actions taken by the Federal Reserve continued to impact the Company's earnings in 2015. In 2015, 2016 and 2017, the Federal Reserve increased the discount rate 125 basis points with the fed funds and prime interest rates increasing as a result. Discount or fed funds rate changes that occur in 2018 may affect the Company's earnings in the current year and/or in the future.

**Changes in the policies of monetary authorities and other government action could adversely affect the Company's profitability.**

Many factors affect the demand for loans and the ability to attract deposits, including changes in government economic and monetary policies, particularly by the Federal Reserve, modifications to tax, banking and credit laws and regulations, national, state and local economic growth rates and employment rates. Previous legislation such as Emergency Economic Stabilization Act of 2008 ( EESA ) and American Recovery and Reinvestment Act of 2009 ( ARRA ) were passed to address issues facing certain financial institutions, improve the general availability of credit for consumers and businesses, stimulate the national economy and promote long-term growth and stability. Further regulation impacting the Company and its operations include The Dodd-Frank Act, which was passed to increase transparency, accountability and oversight over financial firms and products as well as to provide protection to consumers. The new capital requirements under BASEL III raise minimum capital requirements, change the definition of capital, create a capital conservation buffer and increase risk weights for certain assets and exposures. There can be no assurance that EESA, ARRA, Dodd-Frank or BASEL III will achieve their intended purposes. Furthermore, their failure could result in continuing or worsening economic and market conditions, and this could adversely affect our operations.

**The Company is subject to regulation by various federal and state entities.**

The Company is subject to the regulations of the SEC, the Federal Reserve Board, the FDIC and the MDBCF. New regulations issued by these agencies, including but not limited to those relating to the Patriot Act, the Bank Secrecy Act, The Dodd-Frank Act and the Consumer Financial Protection Bureau, may adversely affect the Company's ability to carry on its business activities. The Company is also subject to various other federal and state laws and certain changes in these laws and regulations may adversely affect the Company's operations. Noncompliance with certain of these regulations may impact the Company's business plans or result in sanctions by regulatory agencies and/or civil money penalties, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, it cannot assure that such violations will be prevented.

The Company is also subject to laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, as well as the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of the Company and may also require additional effort or cost to implement.

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The Dodd-Frank Act and other legislative and regulatory initiatives relating to the financial services industry could materially affect the Company's results of operations, financial condition, liquidity or the market price of the Company's Common Stock.

The Dodd-Frank Act, as implemented by the regulations currently being promulgated by various federal regulatory agencies, along with other regulatory initiatives relating to the financial services industry, could materially affect the Company's results of operations, financial condition, liquidity or the market price of the Company's common stock. The Company is unable to completely evaluate these potential effects at this time. It is also possible that these measures could adversely affect the creditworthiness of counterparties, which could increase the Company's risk profile.

The Company may be subject to more stringent capital and liquidity requirements which would adversely affect its net income and future growth.

The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will change the way in which hybrid securities, such as trust preferred securities, are treated for purposes of determining a bank holding company's regulatory capital. On June 14, 2011, the federal banking agencies published a final rule regarding minimum leverage and risk-based capital requirements for banks and bank holding companies consistent with the requirements of Section 171 of the Dodd-Frank Act. For a more detailed description of the minimum capital requirements see Supervision and Regulation Capital Standards . The Dodd-Frank Act also increased regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. These requirements, and any other new regulations, could adversely affect the Company's ability to pay dividends, or could require the Company to reduce business levels or to raise capital, including in ways that may adversely affect the Company's results of operations or financial condition.

In addition, on September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. In 2013, regulators adopted enhancements to U.S. capital standards based on Basel III. The revised standards create a new emphasis on Tier 1 common equity, modify eligibility criteria for regulatory capital instruments, and modify the methodology for calculating risk-weighted assets. The revised standards require the following:

*Tier 1 Common Equity.* For all supervised financial institutions, including the Company and the Bank, the ratio of Tier 1 common equity to risk-weighted assets ( Tier 1 Common Equity Capital ratio ) must be at least 4.5%. To be well capitalized the Tier 1 Common Equity Capital ratio must be at least 6.5%. If a capital conservation buffer of an additional 2.5% above the minimum 4.5% (or 7% overall) is not maintained, special restrictions would apply to capital distributions, such as dividends and stock repurchases, and on certain compensatory bonuses. Tier 1 common equity capital consists of core components of Tier 1 capital: common stock plus retained earnings net of goodwill, other intangible assets, and certain other required deduction items.

*Tier 1 Capital Ratio.* For all banking organizations, including the Bank, the ratio of Tier 1 capital to risk-weighted assets must be at least 6%. The threshold is raised from the current



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4%, and the risk-weighting method is changed as mentioned above. To be well capitalized the Tier 1 capital ratio must be at least 8%.

*Total Capital Ratio.* For all supervised financial institutions, including the Company and the Bank, the ratio of total capital to risk-weighted assets must be at least 8%. Although this threshold is unchanged from current requirements, as mentioned above the method for risk-weighting assets has been changed. As a result of that method change, many banks could have experienced a reduction in this ratio if the change had been effective immediately when the rules were adopted.

*Leverage Ratio Base.* For all banking organizations, including the Bank, the leverage ratio must be at least 4%. To be well capitalized the leverage ratio must be at least 5%.

*Leverage Ratio Supplemental.* For the largest internationally active banking organizations, not including the Bank, a minimum supplementary leverage ratio must be maintained that takes into account certain off-balance sheet exposures.

The revised standards took effect on January 1, 2014 for the larger, so-called advanced-approaches institutions, and on January 1, 2015 for all other institutions, including the Company and the Bank. The capital conservation buffer requirement is subject to a phase-in period.

Future increases in minimum capital requirements could adversely affect the Company's net income. Furthermore, the Company's failure to comply with the minimum capital requirements could result in regulators taking formal or informal actions against the Company which could restrict future growth or operations.

The Company relies heavily on technology and computer systems, and disruptions of, failures of, advances in and changes in technology could significantly affect business.

As is customary in the banking industry, the Company is dependent upon automated and non-automated systems to record and process our transaction volume. This poses the risk that technical system flaws, employee errors or tampering or manipulation of those systems by employees, customers or outsiders will result in losses. Any such losses, which may be difficult to detect, could adversely affect the Company's financial condition or results of operations. In addition, the occurrence of such a loss could expose the Company to reputational risk, the loss of customer business, additional regulatory scrutiny or civil litigation and possible financial liability. The Company may also be subject to disruptions of operating systems arising from events that are beyond our control, such as computer viruses, communication and energy disruption and unethical individuals with technological ability to cause disruptions or failures of data processing systems. The Company's ability to compete depends on the ability to continue to adapt to changes in technology on a timely and cost-effective basis to meet customers' demands.

Changes in accounting standards may affect how the Company reports its financial condition and results of operations.

The Company's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time, the Financial Accounting

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Standards Board (the FASB ) changes the financial accounting and reporting standards that govern the preparation of the Company s financial statements. The most recent economic recession resulted in increased scrutiny of accounting standards by regulators and legislators, particularly as they relate to fair value accounting principles. In addition, ongoing efforts to achieve convergence between U.S. generally accepted accounting principles ( GAAP ) and International Financial Reporting Standards may result in changes to GAAP. Any such changes can be difficult to predict and can materially affect how the Company records and reports its financial condition or results of operations. For example, in June 2016, the FASB issued Accounting Standards Update ( ASU ) 2016-13 *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the current incurred loss impairment methodology with a methodology that reflects all current expected credit losses ( CECL ) and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The Company intends to adopt ASU 2016-13 during the first quarter of 2020, and adoption of this ASU could materially affect its allowance for loan loss methodology, financial condition, capital levels and results of operations, including expenses the Company may incur in implementing this ASU. For additional details regarding recently adopted and pending accounting pronouncements, see Note A Business and Summary of Significant Accounting Policies included in Part II. Item 8. Financial Statements and Supplementary Data of this report.

**RISKS RELATING TO AN INVESTMENT IN THE COMPANY S COMMON STOCK**

**Securities issued by the Company are not FDIC insured.**

The Company s common stock is not a savings or deposit account or other obligation of the Bank and is not insured by the FDIC, the Bank Insurance Fund or any other government agency or instrumentality, or any private insurer and is subject to investment risk, including the possible loss of principal.

**The directors of the Company and executive management own a significant number of shares of stock, allowing further control over business and corporate affairs.**

The Company s directors and executive officers beneficially own approximately 9% of the outstanding common stock of Peoples Financial Corporation. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on the Company s business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval.

**The Company s stock price can be volatile.**

Stock price volatility may make it more difficult for you to sell your common stock when you want and at prices you find attractive. The Company s stock price can fluctuate significantly in response to a variety of factors including, among other things:

actual or anticipated variations in quarterly results of operations;



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recommendations by securities analysts;

operating and stock price performance of other companies that investors deem comparable to the Company;

news reports relating to trends, concerns and other issues in the banking and financial services industry;

perceptions in the marketplace regarding the Company or its competitors;

new technology used, or services offered, by competitors;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;

failure to integrate acquisitions or realize anticipated benefits from acquisitions;

changes in government regulations; and

geopolitical conditions such as acts or threats of terrorism or military conflicts.

Additionally, general market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company's stock price to decrease regardless of operating results.

The trading volume in the Company's common stock is less than that of other larger bank holding companies.

The Company's common stock is listed for trading on The OTCQX Best Market. The average daily trading volume in the Company's common stock is low, generally less than that of many of its competitors and other larger bank holding companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause volatility in the price of the Company's common stock.

Provisions of the Company's articles of incorporation and bylaws, Mississippi law and state and federal banking regulations could delay or prevent a takeover by a third party.

Certain provisions of the Company's articles of incorporation and bylaws and of state and federal law may make it more difficult for someone to acquire control of the Company. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Company's shares. Banking agencies review the acquisition to

determine if it will

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result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquirer and the antitrust effects of the acquisition. There are also Mississippi statutory provisions and provisions in the Company's articles of incorporation and bylaws that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in the Company's articles and bylaws could result in the Company being less attractive to a potential acquirer.

The Company's future ability to pay dividends is subject to restrictions.

Since the Company is a holding company with no significant assets other than the Bank, the Company has no material source of funds other than dividends received from the Bank. Therefore, the ability to pay dividends to the shareholders will depend on the Bank's ability to pay dividends to the Company. Moreover, banks and bank holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. Currently, the Federal Reserve, the FDIC and the MDBCF must approve the declaration and payment of dividends by the Company and the Bank, respectively.

**ITEM 1b - UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2 - PROPERTIES**

The principal properties of the Company are its 18 business locations, including the Main Office, which is located at 152 Lameuse Street in Biloxi, MS, 39530. The Armed Forces Retirement Home (AFRH) Branch located at 1800 Beach Drive, Gulfport, MS 39507, is located in space provided by the AFRH. The Keesler Branch located at 1507 Meadows Drive, Keesler AFB, MS 39534, is rented from the Department of Defense. All other branch locations are owned by the Company. The address of the other branch locations are:

Bay St. Louis Office	408 Highway 90 East, Bay St. Louis, MS 39520
Cedar Lake Office	1740 Popps Ferry Road, Biloxi, MS 39532
Diamondhead Office	5429 West Aloha Drive, Diamondhead, MS 39525
D Iberville-St. Martin Office	10491 Lemoyne Boulevard, D Iberville, MS 39540
Downtown Gulfport Office	1105 30th Avenue, Gulfport, MS 39501
Gautier Office	2609 Highway 90, Gautier, MS 39553
Handsboro Office	0412 E. Pass Road, Gulfport, MS 39507
Long Beach Office	298 Jeff Davis Avenue, Long Beach, MS 39560
Ocean Springs Office	2015 Bienville Boulevard, Ocean Springs, MS 39564
Orange Grove Office	12020 Highway 49 North, Gulfport, MS 39503
Pass Christian Office	301 East Second Street, Pass Christian, MS 39571
Saucier Office	17689 Second Street, Saucier, MS 39574
Waveland Office	470 Highway 90, Waveland, MS 39576
West Biloxi Office	2560 Pass Road, Biloxi, MS 39531
Wiggins Office	1312 S. Magnolia Drive, Wiggins, MS 39577

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**ITEM 3 - LEGAL PROCEEDINGS**

Information relating to legal proceedings is included in Note M Contingencies to the 2017 Consolidated Financial Statements which is in Item 8 in this Annual Report on Form 10-K.

**ITEM 4 - MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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. The Company and the bank subsidiary may not declare or pay any cash dividends without prior written approval of their regulators.

At December 31, 2017, there were 452 holders of the common stock of the Company, which does not reflect persons or entities that hold the common stock in nominee or street name through various brokerage firms. At December 31, 2017, there were 5,083,186 shares issued and outstanding.

The Company's stock is traded under the symbol PFBX. Until December 15, 2017, the stock was traded on the NASDAQ Capital Market (NASDAQ). To reduce costs, the Company delisted from NASDAQ and began trading on the OTCQX Best Market (OTCQX) on December 18, 2017.

The following table sets forth the high and low bid prices of the Company's common stock for the periods indicated by NASDAQ for all quarters in 2016 and 2017 and by OTCQX for the fourth quarter of 2017. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

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Year	Quarter	High	Low	Dividend Per share
2017	1st	\$ 16.35	\$ 13.80	\$
	2nd	15.27	12.60	
	3rd	14.95	12.85	.01
	4th - NASDAQ	15.30	12.05	
	4th - OTCQX	13.25	12.21	
2016	1st	\$ 9.50	\$ 8.53	\$
	2nd	11.26	8.90	
	3rd	11.41	10.23	
	4th	16.40	10.50	

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	2017	2016	2015	2014	2013
<b>Balance Sheet Summary</b>					
Total assets	\$ 650,424	\$ 688,014	\$ 641,004	\$ 668,895	\$ 762,264
Available for sale securities	245,664	233,578	202,807	215,122	275,440
Held to maturity securities	51,163	48,150	19,025	17,784	11,142
Loans, net of unearned discount	280,449	315,355	337,557	362,407	375,349
Deposits	529,570	575,016	512,707	516,920	568,197
Borrowings from FHLB	11,198	6,257	18,409	38,708	77,684
Shareholders equity	89,499	88,461	91,839	94,951	99,147
<b>Summary of Operations</b>					
Interest income	\$ 18,503	\$ 18,493	\$ 19,311	\$ 22,156	\$ 24,956
Interest expense	1,423	1,025	875	1,441	1,447
Net interest income	17,080	17,468	18,436	20,715	23,509
Provision for loan losses	116	568	2,582	7,404	9,661
Net interest income after provision for loan losses	16,964	16,900	15,854	13,311	13,848
Non-interest income	6,965	6,549	6,898	8,619	9,067
Non-interest expense	22,251	23,204	28,106	27,208	25,654
Income (loss) before taxes	1,678	245	(5,354)	(5,278)	(2,739)
Income tax expense (benefit)	(1,080)	78	(762)	4,726	(2,201)
Net income (loss)	\$ 2,758	\$ 167	\$ (4,592)	\$ (10,004)	\$ (538)
<b>Per Share Data</b>					
Basic and diluted earnings per share	\$ .54	\$ .03	(\$ .90)	(\$ 1.95)	(\$ .10)
Dividends per share	.01			.10	
Book value	17.84	17.27	17.93	18.53	19.35
Weighted average number of shares	5,123,076	5,123,186	5,123,186	5,123,186	5,128,889
<b>Selected Ratios</b>					
Return on average assets	0.41%	0.02%	(.69%)	(1.38%)	(.07%)
Return on average equity	3.08%	0.19%	(4.92%)	(10.31%)	(.51%)
Primary capital to average assets	14.34%	13.99%	15.06%	14.38%	13.64%
<b>Risk-based capital ratios:</b>					
Tier 1	23.87%	21.69%	20.58%	20.70%	21.54%
Total	25.12%	22.94%	21.83%	21.95%	22.79%



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**ITEM 7 - 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, 2017, 2016 and 2015. 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 2017, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not generally expect that these updates will have a material impact on its financial position or results of operations. However the effect of Accounting Standards Update 2016-13 is still being considered.

**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.



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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.

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### **Employee Benefit Plans**

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

### **Income Taxes**

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

### **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, 2017, 2016 and 2015 is included in the table on the following page.

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

Years Ended December 31,	2017	2016	2015
<b>Interest income reconciliation:</b>			
Interest income - taxable equivalent	\$ 19,048	\$ 19,121	\$ 19,969
Taxable equivalent adjustment	(545)	(628)	(658)
<b>Interest income (GAAP)</b>	<b>\$ 18,503</b>	<b>\$ 18,493</b>	<b>\$ 19,311</b>
<b>Net interest income reconciliation:</b>			
Net interest income - taxable equivalent	\$ 17,625	\$ 18,096	\$ 19,094
Taxable equivalent adjustment	(545)	(628)	(658)
<b>Net interest income (GAAP)</b>	<b>\$ 17,080</b>	<b>\$ 17,468</b>	<b>\$ 18,436</b>

**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 \$2,758,000 for 2017 compared with net income of \$167,000 for 2016 and a net loss of \$4,592,000 for 2015. Results in 2017 were significantly impacted by the continuing decrease in the provision for the allowance for loan losses, a non-recurring gain from the redemption of death benefits on bank owned life insurance and a tax benefit. Results in 2016 included a decrease in net interest income and non-interest income, which were offset by a decrease in the provision for the allowance for loan losses and non-interest expense, as compared with 2015.

Managing the net interest margin in the Company's highly competitive market continues to be very challenging. While the decrease in interest and fees on loans of \$1,130,000 was offset by an increase on interest and dividends on securities of \$1,046,000, net interest income was also impacted by the increase in interest expense of \$398,000 for 2017 as compared with 2016. The increase in interest expense on deposits resulted from the increase in cost of funds during 2017. Net interest income was impacted primarily by the decrease in interest income on loans of \$527,000 and the decrease in interest income on taxable available for sale securities of \$620,000 for 2016 as compared with 2015.

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Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized as the local economy has negatively impacted collateral values and borrowers' ability to repay their loans. The Company's nonaccrual loans totaled \$13,810,000, \$11,854,000 and \$15,186,000 at December 31, 2017, 2016 and 2015, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. The Company is working diligently to address and reduce its non-performing assets, and some stability in collateral values has occurred. The provision for the allowance for loan losses was \$116,000, \$568,000 and \$2,582,000 for 2017, 2016 and 2015, respectively.

Non-interest income increased \$416,000 for 2017 as compared with 2016 and decreased \$349,000 for 2016 as compared with 2015. Results for 2017 included a non-recurring gain of \$429,000 from the redemption of death benefits on bank owned life insurance. Results in 2016 included a decrease in service charges on deposit accounts of \$500,000 for 2016 as compared with 2015 primarily as a result of decreased ATM fee income.

Non-interest expense decreased \$953,000 for 2017 as compared with 2016 and decreased \$4,902,000 for 2016 as compared with 2015. The decrease for 2017 was primarily the result of a decrease in net occupancy of \$202,000 and the decrease in FDIC and state banking assessments of \$477,000. The decrease for 2016 was the result of the decrease in salaries and employee benefits of \$628,000, ORE expenses of \$1,396,000 and ATM expenses of \$628,000 as compared with 2015. There was not an impairment in 2016 but results for 2015 were impacted by a write-down of \$1,695,000 from the credit impairment of a municipal security.

In 2017, the Company recorded an income tax benefit as a result of the release of a part of its valuation allowance on deferred assets and the correction of refunds for prior years. Income tax expense in 2016 related to the resolution of an examination by the Internal Revenue Service. The income tax benefit for 2015 related to change in the valuation allowance.

## **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.

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**2017 as compared with 2016**

The Company's average interest-earning assets increased approximately \$1,687,000, or .28%, from approximately \$598,682,000 for 2016 to approximately \$600,369,000 for 2017. Average loans decreased approximately \$37,490,000 due to principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeding new loans. Average taxable held to maturity securities increased approximately \$20,827,000 and average taxable available for sale securities increased approximately \$28,547,000 as funds not needed for liquidity and lending needs were invested in securities. The average yield on interest-earning assets was 3.19% for 2016 compared with 3.17% for 2017. The yield on average loans increased from 4.34% for 2016 to 4.47% for 2017 as a result of the increase in prime rate during 2016 and 2017. The yield on taxable held to maturity securities increased from 2.15% for 2016 to 2.56% for 2017 and taxable available for sale securities increased from 1.36% for 2016 to 1.52% for 2017 as the Company changed its investment strategy to improve yield while not compromising duration and credit risk.

Average interest-bearing liabilities decreased approximately \$8,058,000, or 2%, from approximately \$445,685,000 for 2016 to approximately \$437,627,000 for 2017. Average borrowings from the Federal Home Loan Bank ( FHLB ) decreased due to the reduced liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 10 basis points, from .23% for 2016 to .33% for 2017. This increase was the result of time deposit rates increasing in our trade area and the Company paying off lower rate borrowings from the FHLB.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.02% for 2016 as compared with 2.94% for 2017.

**2016 as compared with 2015**

The Company's average interest-earning assets decreased approximately \$1,598,000, or .27%, from approximately \$600,280,000 for 2015 to approximately \$598,682,000 for 2016. Average balances due from depository institutions increased approximately \$20,338,000 primarily as a result of the decrease in average loans of approximately \$28,475,000 due to principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeding new loans. The average yield on interest-earning assets was 3.33% for 2015 compared with 3.19% for 2016.

The yield on average loans increased from 4.14% for 2015 to 4.34% for 2016 as a result of the increase in prime rate during 2015 and 2016. This increase was offset by the yield on taxable available for sale securities, which decreased from 1.72% for 2015 to 1.36% for 2016 as investment purchases had shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately \$4,539,000, or 1%, from approximately \$450,224,000 for 2015 to approximately \$445,685,000 for 2016. Average borrowings from the FHLB decreased due to the liquidity needs of the bank subsidiary. The

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average rate paid on interest-bearing liabilities increased 4 basis points, from .19% for 2015 to .23% for 2016.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.18% for 2015 as compared with 3.02% for 2016.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2017, 2016 and 2015.

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## Analysis of Average Balances, Interest Earned/Paid and Yield

(in thousands)

	2017			2016			2015	
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid
(2)	\$ 290,329	\$ 12,970	4.47%	\$ 327,819	\$ 14,232	4.34%	\$ 356,294	\$ 14,759
due pository ns	27,819	420	1.51%	31,559	277	0.88%	11,221	63
	29,389	753	2.56%	8,562	184	2.15%	452	9
ble (3)	19,082	717	3.76%	19,596	725	3.70%	17,645	600
e for	217,059	3,298	1.52%	188,512	2,558	1.36%	184,458	3,178
ble (3)	15,677	864	5.51%	20,902	1,123	5.37%	27,744	1,338
	1,014	26	2.56%	1,732	22	1.27%	2,466	22
	\$ 600,369	\$ 19,048	3.17%	\$ 598,682	\$ 19,121	3.19%	\$ 600,280	\$ 19,969
nd earing	\$ 353,352	\$ 739	0.21%	\$ 359,801	\$ 437	0.12%	\$ 349,782	\$ 306
osits	82,038	637	0.78%	77,644	457	0.59%	74,923	371
gs LB	2,237	47	2.10%	8,240	131	1.59%	25,519	198
	\$ 437,627	\$ 1,423	0.33%	\$ 445,685	\$ 1,025	0.23%	\$ 450,224	\$ 875
alent			2.84%			2.97%		
alent n			2.94%			3.02%		

ssets

- (1) Loan fees of \$338, \$389 and \$333 for 2017, 2016 and 2015, 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 34% in 2017, 2016 and 2015. See disclosure of Non-GAAP financial measures on pages 49 and 50.



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

	For the Year Ended			
	December 31, 2017 Compared With December 31, 2016			
	Volume	Rate	Rate/Volume	Total
<b>Interest earned on:</b>				
Loans	\$ (1,628)	\$ 413	\$ (47)	\$ (1,262)
Balances due from depository institutions	(33)	199	(23)	143
<b>Held to maturity securities:</b>				
Taxable	448	35	86	569
Non taxable	(19)	11		(8)
<b>Available for sale securities:</b>				
Taxable	387	306	47	740
Non taxable	(281)	29	(7)	(259)
Other	(10)	23	(9)	4
<b>Total</b>	<b>\$ (1,136)</b>	<b>\$ 1,016</b>	<b>\$ 47</b>	<b>\$ (73)</b>
<b>Interest paid on:</b>				
Savings and interest-bearing DDA	\$ (8)	\$ 315	\$ (5)	\$ 302
Time deposits	26	146	8	180
Borrowings from FHLB	(95)	42	(31)	(84)
<b>Total</b>	<b>\$ (77)</b>	<b>\$ 503</b>	<b>\$ (28)</b>	<b>\$ 398</b>

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	For the Year Ended				
	December 31, 2016 Compared With December 31, 2015				
	Volume	Rate	Rate/Volume	Total	
<b>Interest earned on:</b>					
Loans	\$ (1,180)	\$ 709	\$ (56)	\$ (527)	
Balances due from depository institutions	114	35	65	214	
<b>Held to maturity securities:</b>					
Taxable	161	1	13	175	
Non taxable	66	53	6	125	
<b>Available for sale securities:</b>					
Taxable	70	(675)	(15)	(620)	
Non taxable	(330)	153	(38)	(215)	
Other	(7)	9	(2)		
<b>Total</b>	<b>\$ (1,106)</b>	<b>\$ 285</b>	<b>\$ (27)</b>	<b>\$ (848)</b>	
<b>Interest paid on:</b>					
Savings and interest-bearing DDA	\$ 9	\$ 119	\$ 3	\$ 131	
Time deposits	13	70	3	86	
Borrowings from FHLB	(134)	207	(140)	(67)	
<b>Total</b>	<b>\$ (112)</b>	<b>\$ 396</b>	<b>\$ (134)</b>	<b>\$ 150</b>	

**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

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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 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 \$13,810,000, \$11,854,000 and \$15,186,000 with specific reserves on these loans of \$1,125,000, \$303,000 and \$1,697,000 as of December 31, 2017, 2016 and 2015, respectively. The specific reserves allocated to nonaccrual loans are relatively low as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value.

The Company's on-going, systematic evaluation resulted in the Company recording a total provision for the allowance for loan losses of \$116,000, \$568,000 and \$2,582,000 in 2017, 2016 and 2015, respectively. As a result of receiving new information and updated appraisals on several collateral-dependent loans, the Company increased the provision for several loans in its real estate, mortgage portfolio in 2017. This increase was partially offset by a large recovery in its residential and land development portfolio during the year. As a result of receiving new information and updated appraisals on several collateral-dependent loans, the Company increased its provision for loan losses during 2016 and 2015. The new appraisals caused Management to update the evaluation of these loans and increase the loan loss provision for several non-performing loans in its residential development and commercial real estate segments during these years. The allowance for loan losses as a percentage of loans was 2.19%, 1.73% and 2.39% at December 31, 2017, 2016 and 2015, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2017.

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.

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### **Non-interest Income**

#### **2017 as compared with 2016**

Total non-interest income increased \$416,000 in 2017 as compared with 2016. This increase was primarily a result of the gain of \$429,000 from the redemption of death benefits on bank owned life insurance in 2017. Income from other investments increased \$93,000 in 2017 as compared with 2016 as operations of an investment in a low income housing partnership improved as a result of increased occupancy. These increases were partially offset by a decrease in other income as 2016 results included a gain of \$88,000 from bank premises.

#### **2016 as compared with 2015**

Total non-interest income decreased \$349,000 in 2016 as compared with 2015. Service charges on deposit accounts decreased \$500,000 primarily as a result of decreased ATM fees. ATM fees decreased \$416,000 as the Company's off-site ATMs at a casino transferred to another vendor during 2015 which reduced ATM transactions. Securities were sold during 2016 for a gain of \$158,000 in 2016 as compared with a gain of \$8,000 in 2015.

### **Non-interest Expense**

#### **2017 as compared with 2016**

Total non-interest expense decreased \$953,000 in 2017 as compared with 2016. Salaries and employee benefits decreased \$139,000 primarily as a result of decreased health insurance costs due to decreased claims. Net occupancy costs decreased \$202,000 as liability insurance premiums decreased \$125,000 as the Company reduced some of its coverage and as telecommunications costs decreased \$81,000 as the Company eliminated some redundant resources. FDIC and state banking assessments decreased \$477,000 as the regulators decreased the premiums for deposit insurance in 2017.

#### **2016 as compared with 2015**

Total non-interest expense decreased \$4,902,000 in 2016 as compared with 2015. Salaries and employee benefits decreased \$628,000 primarily as a result of decreased salaries and health insurance costs. Salaries decreased \$247,000 due to attrition. Health insurance costs decreased \$434,000 as a result of decreasing claims. The Company recorded a loss of \$1,695,000 from the credit impairment of a municipal security during 2015. Other expense decreased \$2,682,000 for 2016 as compared with 2015. This decrease was primarily the result of a decrease in ATM expenses, legal and other real estate expenses. ATM expense decreased \$628,000 as a result of decreased ATM activity as off-site ATMs at a casino transferred to another vendor. Legal expenses decreased \$252,000 primarily as a result of legal fees associated with non-performing loans. Decreased writedowns of other real estate to fair value and a reduction in losses on sales of ORE caused these expenses to decrease \$1,396,000 in 2016 as compared with 2015.

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### **Income Taxes**

The Company recognized an income tax benefit of \$1,080,000 and \$762,000 in 2017 and 2015, respectively, and income tax expense of \$78,000 in 2016. During 2014, Management established a valuation allowance against its net deferred tax asset of approximately \$8,140,000. As of December 31, 2017, the valuation allowance is still in place. The 2017 benefit was 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. The 2015 benefit was the result of changes in certain components of the Company's deferred tax assets and liabilities. 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 decreased \$15,835,000 at December 31, 2017, compared with December 31, 2016 due to the bank subsidiary's reduced liquidity needs.

Available for sale securities increased \$12,086,000 and held to maturity securities increased \$3,013,000 at December 31, 2017 compared with December 31, 2016 as the Company invested some of its excess funding not currently needed for loans in order to improve earnings.

Loans decreased \$34,906,000 at December 31, 2017 compared with December 31, 2016, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Total deposits decreased \$45,446,000 at December 31, 2017, as compared with December 31, 2016. 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. Savings and demand, interest bearing balances specifically decreased \$46,697,000 at December 31, 2017 as one public customer transferred a large balance to another financial institution.

Borrowings from the FHLB increased \$4,941,000 at December 31, 2017 as compared with December 31, 2016 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.

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Significant transactions affecting shareholders' equity during 2017 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 2018.

## **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.

**Table of Contents****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.

**ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

As a smaller reporting company, the Company is not required to provide this information.

**ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

<u>Consolidated Statements of Condition as of December 31, 2017, 2016 and 2015</u>	62
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**Table of Contents****Peoples Financial Corporation and Subsidiaries****Consolidated Statements of Condition****(in thousands except share data)**

<b>December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Cash and due from banks	\$ 25,281	\$ 41,116	\$ 31,396
Available for sale securities	245,664	233,578	202,807
Held to maturity securities, fair value of \$50,538 - 2017; \$46,935 - 2016; \$19,220 - 2015	51,163	48,150	19,025
Other investments	2,735	2,693	2,744
Federal Home Loan Bank Stock, at cost	1,370	539	1,637
<b>Loans</b>	<b>280,449</b>	<b>315,355</b>	<b>337,557</b>
Less: Allowance for loan losses	6,153	5,466	8,070
<b>Loans, net</b>	<b>274,296</b>	<b>309,889</b>	<b>329,487</b>
Bank premises and equipment, net of accumulated depreciation	20,153	21,644	22,446
Other real estate	8,232	8,513	9,916
Accrued interest receivable	1,904	1,855	1,832
Cash surrender value of life insurance	18,301	19,249	18,735
Other assets	1,325	788	979
<b>Total assets</b>	<b>\$ 650,424</b>	<b>\$ 688,014</b>	<b>\$ 641,004</b>



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

<b>December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Liabilities and Shareholders Equity</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Demand, non-interest bearing	\$ 127,274	\$ 132,381	\$ 122,743
Savings and demand, interest bearing	318,278	364,975	315,141
Time, \$100,000 or more	43,991	38,650	35,389
Other time deposits	40,027	39,010	39,434
<b>Total deposits</b>	<b>529,570</b>	<b>575,016</b>	<b>512,707</b>
Borrowings from Federal Home Loan Bank	11,198	6,257	18,409
Employee and director benefit plans liabilities	18,370	16,768	16,283
Other liabilities	1,787	1,512	1,766
<b>Total liabilities</b>	<b>560,925</b>	<b>599,553</b>	<b>549,165</b>
<b>Shareholders Equity:</b>			
Common stock, \$1 par value, 15,000,000 shares authorized, 5,083,186 shares issued and outstanding at December 31, 2017 and 5,123,186 shares issued and outstanding at December 31, 2016 and 2015	5,083	5,123	5,123
Surplus	65,780	65,780	65,780
Undivided profits	21,563	19,318	19,151
Accumulated other comprehensive income (loss), net of tax	(2,927)	(1,760)	1,785
<b>Total shareholders equity</b>	<b>89,499</b>	<b>88,461</b>	<b>91,839</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 650,424</b>	<b>\$ 688,014</b>	<b>\$ 641,004</b>

See Notes to Consolidated Financial Statements.

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## Peoples Financial Corporation and Subsidiaries

## Consolidated Statements of Operations

(in thousands except per share data)

Years Ended December 31,	2017	2016	2015
<b>Interest income:</b>			
Interest and fees on loans	\$ 12,970	\$ 14,232	\$ 14,759
<b>Interest and dividends on securities:</b>			
U. S. Treasuries	1,602	1,133	626
U.S. Government agencies	531	872	1,956
Mortgage-backed securities	1,320	600	596
States and political subdivisions	1,634	1,325	1,280
Other investments	26	53	31
Interest on balances due from depository institutions	420	278	63
<b>Total interest income</b>	<b>18,503</b>	<b>18,493</b>	<b>19,311</b>
<b>Interest expense:</b>			
Deposits	1,376	894	677
Borrowings from Federal Home Loan Bank	47	131	198
<b>Total interest expense</b>	<b>1,423</b>	<b>1,025</b>	<b>875</b>
<b>Net interest income</b>	<b>17,080</b>	<b>17,468</b>	<b>18,436</b>
<b>Provision for allowance for loan losses</b>	<b>116</b>	<b>568</b>	<b>2,582</b>
<b>Net interest income after provision for allowance for loan losses</b>	<b>\$ 16,964</b>	<b>\$ 16,900</b>	<b>\$ 15,854</b>



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

Years Ended December 31,	2017	2016	2015
<b>Non-interest income:</b>			
Trust department income and fees	1,689	1,614	1,642
Service charges on deposit accounts	3,732	3,763	4,263
Gain on liquidation, sales and calls of securities	134	158	8
Income (loss) from other investments	42	(51)	(218)
Increase in cash surrender value of life insurance	458	406	489
Gain from death benefits from life insurance	429		
Other income	481	659	714
<b>Total non-interest income</b>	<b>6,965</b>	<b>6,549</b>	<b>6,898</b>
<b>Non-interest expense:</b>			
Salaries and employee benefits	10,949	11,088	11,716
Net occupancy	2,121	2,323	2,365
Equipment rentals, depreciation and maintenance	3,006	2,954	2,809
Loss on credit impairment of securities			1,695
Other expense	6,175	6,839	9,521
<b>Total non-interest expense</b>	<b>22,251</b>	<b>23,204</b>	<b>28,106</b>
<b>Income (loss) before income taxes</b>	<b>1,678</b>	<b>245</b>	<b>(5,354)</b>
Income tax (benefit) expense	(1,080)	78	(762)
<b>Net income (loss)</b>	<b>\$ 2,758</b>	<b>\$ 167</b>	<b>\$ (4,592)</b>

<b>Basic and diluted earnings (loss) per share</b>	\$ .54	\$ .03	(\$ .90)
<b>Dividends declared per share</b>	\$ .01	\$	\$

See Notes to Consolidated Financial Statements.

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

Years Ended December 31,	2017	2016	2015
<b>Net income (loss)</b>	\$ 2,758	\$ 167	\$ (4,592)
<b>Other comprehensive income (loss), net of tax:</b>			
Net unrealized gain (loss) on available for sale securities, net of tax of \$390 for the year ended December 31, 2015	127	(3,345)	762
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of \$3 for the year ended December 31, 2015	(134)	(158)	(5)
Gain (loss) from unfunded post-retirement benefit obligation, net of tax of \$372 for the year ended December 31, 2015	(1,160)	(42)	723
<b>Total other comprehensive income (loss)</b>	(1,167)	(3,545)	1,480
<b>Total comprehensive income (loss)</b>	\$ 1,591	\$ (3,378)	\$ (3,112)

See Notes to Consolidated Financial Statements.

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## Peoples Financial Corporation and Subsidiaries

## Consolidated Statements of Changes in Shareholders Equity

(in thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2015</b>	5,123,186	\$ 5,123	\$ 65,780	\$ 23,743	\$ 305	\$ 94,951
Net loss				(4,592)		(4,592)
Other comprehensive income					1,480	1,480
<b>Balance, December 31, 2015</b>	5,123,186	5,123	65,780	19,151	1,785	91,839
Net income				167		167
Other comprehensive loss					(3,545)	(3,545)
<b>Balance, December 31, 2016</b>	5,123,186	5,123	65,780	19,318	(1,760)	88,461
Net income				2,758		2,758
Retirement of stock	(40,000)	(40)		(462)		(502)
Cash dividend (\$.01 per share)				(51)		(51)
Other comprehensive loss					(1,167)	(1,167)
<b>Balance, December 31, 2017</b>	5,083,186	\$ 5,083	\$ 65,780	\$ 21,563	\$ (2,927)	\$ 89,499

See Notes to Consolidated Financial Statements.



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

<b>Years Ended December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>			
<b>Net income (loss)</b>	\$ 2,758	\$ 167	\$ (4,592)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,914	1,823	1,754
Provision for allowance for loan losses	116	568	2,582
Writedown of other real estate	460	782	937
(Gain) loss on sales of other real estate	101	(251)	789
Loss on credit impairment of securities			1,695
(Income) loss from other investments	(42)	51	218
Gain on death benefits from life insurance	(429)		
Amortization of available for sale securities	287	30	224
Amortization of held to maturity securities	253	181	83
Gain on liquidation, sales and calls of securities	(134)	(158)	(8)
Increase in cash surrender value of life insurance	(458)	(406)	(489)
Change in accrued interest receivable	(49)	(23)	293
Change in other assets	(537)	191	1,087
Change in other liabilities	717	189	66
<b>Net cash provided by operating activities</b>	\$ 4,957	\$ 3,144	\$ 4,639

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

Years Ended December 31,	2017	2016	2015
<b>Cash flows from investing activities:</b>			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	\$ 71,315	\$ 149,715	\$ 56,593
Purchases of available for sale securities	(83,561)	(183,861)	(45,042)
Proceeds from maturities of held to maturity securities	7,725	510	210
Purchases of held to maturity securities	(10,991)	(29,816)	(1,534)
(Purchase) redemption of Federal Home Loan Bank Stock	(831)	1,098	867
Proceeds from sales of other real estate	1,666	2,775	3,506
Loans, net change	33,531	17,127	13,630
Acquisition of premises and equipment	(423)	(1,021)	(416)
Investment in cash surrender value of life insurance	(94)	(108)	(101)
Proceeds from death benefits from life insurance	1,929		
<b>Net cash provided by (used in) investing activities</b>	<b>20,266</b>	<b>(43,581)</b>	<b>27,713</b>
<b>Cash flows from financing activities:</b>			
Demand and savings deposits, net change	(51,804)	59,472	(2,463)
Time deposits, net change	6,358	2,837	(1,750)
Cash dividends	(51)		
Retirement of stock	(502)		
Borrowings from Federal Home Loan Bank	131,500	98,920	992,545
Repayments to Federal Home Loan Bank	(126,559)	(111,072)	(1,012,844)
<b>Net cash provided by (used in) financing activities</b>	<b>(41,058)</b>	<b>50,157</b>	<b>(24,512)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(15,835)</b>	<b>9,720</b>	<b>7,840</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>41,116</b>	<b>31,396</b>	<b>23,556</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 25,281</b>	<b>\$ 41,116</b>	<b>\$ 31,396</b>

See Notes to Consolidated Financial Statements.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**Business of The Company**

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

**Principles of Consolidation**

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

**Basis of Accounting**

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

**New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU 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 became effective on January 1, 2018 for the Company. As most of the Company's revenue streams are excluded from the scope of the update, the adoption of this ASU will not have a material effect on the Company's financial position, results of operations or cash flows.

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In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of determining the effect of ASU 2016-13 on its financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings*. ASU 2017-03 incorporates into the Accounting Standards Codification recent SEC guidance about disclosing the effect on financial statements of adopting the revenue, leases and credit losses standards. This update is effective upon issuance. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. ASU 2017-05 conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 amends the requirements related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 shortens the amortization period for the premium on such securities to the earliest call date. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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In November 2017, the FASB issued ASU 2017-14, *Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606)*. ASU 2017-14 brings existing SEC staff guidance into conformity with the FASB’s adoption of amendments to Topic 606. The adoption of this ASU is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

## **Cash and Due from Banks**

The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately \$564,000, \$4,240,000 and \$2,084,000 for the years ending December 31, 2017, 2016 and 2015, 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

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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.

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

### **Allowance for Loan Losses**

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

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

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for the allowance for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2017.

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.

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

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

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

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



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

### **Bank Premises and Equipment**

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

### **Other Real Estate**

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

### **Trust Department Income and Fees**

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

### **Income Taxes**

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

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the

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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 5,123,076 in 2017 and 5,123,186 in 2016 and 2015.

### **Accumulated Other Comprehensive Income (Loss)**

At December 31, 2017, 2016 and 2015, 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 \$1,420,399, \$1,020,177 and \$874,890 in 2017, 2016 and 2015, respectively, for interest on deposits and borrowings. Income tax payments totaled \$78,435 in 2016. Loans transferred to other real estate amounted to \$1,946,045, \$1,903,427 and \$7,502,496 in 2017, 2016 and 2015, respectively.

### **Fair Value Measurement**

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

### **NOTE B SECURITIES:**

The amortized cost and fair value of securities at December 31, 2017, 2016 and 2015, respectively, are as follows (in thousands):

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December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale securities:</b>				
Debt securities:				
U.S. Treasuries	\$ 124,820	\$	\$ (2,176)	\$ 122,644
U.S. Government agencies	19,989		(158)	19,831
Mortgage-backed securities	89,207	96	(1,042)	88,261
States and political subdivisions	14,178	292		14,470
<b>Total debt securities</b>	<b>248,194</b>	<b>388</b>	<b>(3,376)</b>	<b>245,206</b>
Equity securities	458			458
<b>Total available for sale securities</b>	<b>\$ 248,652</b>	<b>\$ 388</b>	<b>\$ (3,376)</b>	<b>\$ 245,664</b>
Held to maturity securities:				
U.S. Government agencies	\$ 8,185	\$	\$ (302)	\$ 7,883
States and political subdivisions	42,978	227	(550)	42,655
<b>Total held to maturity securities</b>	<b>\$ 51,163</b>	<b>\$ 227</b>	<b>\$ (852)</b>	<b>\$ 50,538</b>

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December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale securities:</b>				
<b>Debt securities:</b>				
U.S. Treasuries	\$ 149,676	\$ 39	\$ (2,091)	\$ 147,624
U.S. Government agencies	24,973	58	(206)	24,825
Mortgage-backed securities	43,939	74	(1,305)	42,708
States and political subdivisions	17,513	450		17,963
<b>Total debt securities</b>	<b>236,101</b>	<b>621</b>	<b>(3,602)</b>	<b>233,120</b>
Equity securities	458			458
<b>Total available for sale securities</b>	<b>\$ 236,559</b>	<b>\$ 621</b>	<b>\$ (3,602)</b>	<b>\$ 233,578</b>
<b>Held to maturity securities:</b>				
U.S. Government agencies	\$ 10,009	\$	\$ (315)	\$ 9,694
States and political subdivisions	36,677	29	(927)	35,779
Corporate bond	1,464		(2)	1,462
<b>Total held to maturity securities</b>	<b>\$ 48,150</b>	<b>\$ 29</b>	<b>\$ (1,244)</b>	<b>\$ 46,935</b>

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December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale securities:</b>				
<b>Debt securities:</b>				
U.S. Treasuries	\$ 63,845	\$ 20	\$ (111)	\$ 63,754
U.S. Government agencies	84,849	176	(479)	84,546
Mortgage-backed securities	30,106	155	(131)	30,130
States and political subdivisions	22,833	894		23,727
<b>Total debt securities</b>	<b>201,633</b>	<b>1,245</b>	<b>(721)</b>	<b>202,157</b>
Equity securities	650			650
<b>Total available for sale securities</b>	<b>\$ 202,283</b>	<b>\$ 1,245</b>	<b>\$ (721)</b>	<b>\$ 202,807</b>
<b>Held to maturity securities:</b>				
States and political subdivisions	\$ 17,507	\$ 222	\$ (16)	\$ 17,713
Corporate bond	1,518		(11)	1,507
<b>Total held to maturity securities</b>	<b>\$ 19,025</b>	<b>\$ 222</b>	<b>\$ (27)</b>	<b>\$ 19,220</b>

The amortized cost and fair value of debt securities at December 31, 2017, (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.

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	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	\$ 47,862	\$ 47,725
Due after one year through five years	88,005	86,907
Due after five years through ten years	22,787	21,961
Due after ten years	333	352
Mortgage-backed securities	89,207	88,261
<b>Total</b>	<b>\$ 248,194</b>	<b>\$ 245,206</b>
Held to maturity securities:		
Due in one year or less	\$ 694	\$ 693
Due after one year through five years	14,336	14,296
Due after five years through ten years	20,555	20,235
Due after ten years	15,578	15,314
<b>Total</b>	<b>\$ 51,163</b>	<b>\$ 50,538</b>

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2017, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

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	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, 2017:						
U.S. Treasuries	\$ 49,586	\$ 364	\$ 73,058	\$ 1,812	\$ 122,644	\$ 2,176
U.S. Government agencies	8,145	37	14,567	423	22,712	460
Mortgage-backed securities	60,230	415	13,492	627	73,722	1,042
States and political subdivisions	11,552	168	7,010	382	18,562	550
<b>Total</b>	<b>\$ 129,513</b>	<b>\$ 984</b>	<b>\$ 108,127</b>	<b>\$ 3,244</b>	<b>\$ 237,640</b>	<b>\$ 4,228</b>
December 31, 2016:						
U.S. Treasuries	\$ 97,634	\$ 2,091	\$	\$	\$ 97,634	\$ 2,091
U.S. Government agencies	24,478	521			24,478	521
Mortgage-backed securities	37,663	1,305			37,663	1,305
States and political subdivisions	24,627	926	589	1	25,216	927
Corporate bond			1,462	2	1,462	2
<b>Total</b>	<b>\$ 184,402</b>	<b>\$ 4,843</b>	<b>\$ 2,051</b>	<b>\$ 3</b>	<b>\$ 186,453</b>	<b>\$ 4,846</b>
December 31, 2015:						
U.S. Treasuries	\$ 39,889	\$ 111	\$	\$	\$ 39,889	\$ 111
U.S. Government agencies	14,894	87	12,581	392	27,475	479
Mortgage-backed securities	16,557	131			16,557	131
States and political subdivisions	2,225	8	1,362	8	3,587	16
Corporate bond	1,507	11			1,507	11
<b>Total</b>	<b>\$ 75,072</b>	<b>\$ 348</b>	<b>\$ 13,943</b>	<b>\$ 400</b>	<b>\$ 89,015</b>	<b>\$ 748</b>





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At December 31, 2017, 25 of the 25 securities issued by the U.S. Treasury, 5 of the 6 securities issued by U.S. Government agencies, 27 of the 35 mortgage-backed securities and 53 of the 148 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.

As part of its routine evaluation of securities for other-than-temporary impairment, the Company identified a potential credit loss on bonds issued by a municipality with a carrying value of \$1,875,000 during 2015. The Company's evaluation considered the failure of the issuer to make scheduled interest payments and expectations of future performance. Principal and interest payments due under the current terms of the bonds are funded by sales and property tax collections by the related municipality. During the third quarter of 2015, the assessed value of the related real estate parcels was significantly reduced, which will reduce the level of future cash flows supporting the principal and interest payments on the bonds. The present value of the expected future cash flows was calculated by the Company. Based on its evaluation, it was determined that the investment in the bonds was impaired and that a credit loss should be recognized in earnings. During 2015, the Company recorded a loss of \$1,695,000 from the credit impairment of these bonds. Accrued interest of \$92,564 relating to these securities was also charged off during 2015. During 2017 and 2016, payments were received from the municipality which resulted in the Company recognizing a gain of \$20,000 and \$53,861, respectively.

Proceeds from sales of available for sale debt securities were \$30,748,797, \$29,641,206 and \$5,007,993 during 2017, 2016 and 2015, respectively. Available for sale debt securities were sold and called for realized gains of \$133,986, \$157,925 and \$7,993 during 2017, 2016 and 2015, respectively.

Securities with a fair value of \$196,702,218, \$180,659,168 and \$168,724,920 at December 31, 2017, 2016 and 2015, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

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## NOTE C LOANS:

The composition of the loan portfolio at December 31, 2017, 2016 and 2015 is as follows (in thousands):

December 31,	2017	2016	2015
Gaming	\$ 26,142	\$ 31,311	\$ 31,655
Residential and land development	263	291	933
Real estate, construction	31,947	32,503	35,414
Real estate, mortgage	189,201	206,172	219,925
Commercial and industrial	26,360	37,035	42,480
Other	6,536	8,043	7,150
<b>Total</b>	<b>\$ 280,449</b>	<b>\$ 315,355</b>	<b>\$ 337,557</b>

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

	2017	2016	2015
Balance, January 1	\$ 6,658	\$ 7,608	\$ 7,760
New loans and advances	907	312	3,958
Repayments	(1,022)	(1,262)	(4,110)
<b>Balance, December 31</b>	<b>\$ 6,543</b>	<b>\$ 6,658</b>	<b>\$ 7,608</b>

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,	2017	2016	2015
Gaming	\$ 26,142	\$ 31,311	\$ 31,655
Hotel/motel	34,882	40,319	39,460

Out of area	14,597	14,461	14,526
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The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2017, 2016 and 2015 is as follows (in thousands):

	Number of Days Past Due						Total Loans	Loans Past Due Greater Than 90 Days and Still Accruing
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current			
December 31, 2017:								
Lending	\$	\$	\$	\$	\$	26,142	\$ 26,142	\$
Residential and land development						263	263	
Real estate, construction	747	121	522	1,390	30,557	31,947		
Real estate, mortgage	5,321	790	4,884	10,995	178,206	189,201		
Commercial and industrial	375	2	2,344	2,721	23,639	26,360		
Other	26	3		29	6,507	6,536		
<b>Total</b>	<b>\$ 6,469</b>	<b>\$ 916</b>	<b>\$ 7,750</b>	<b>\$ 15,135</b>	<b>\$ 265,314</b>	<b>\$ 280,449</b>	<b>\$</b>	<b>\$</b>
December 31, 2016:								
Lending	\$	\$	\$	\$	\$	31,311	\$ 31,311	\$
Residential and land development				291	291	291	291	
Real estate, construction	902	216	1,082	2,200	30,303	32,503		
Real estate, mortgage	4,608	1,923	4,471	11,002	195,170	206,172		
Commercial and industrial	867		8	875	36,160	37,035		
Other	44	36	80	160	7,883	8,043		
<b>Total</b>	<b>\$ 6,421</b>	<b>\$ 2,175</b>	<b>\$ 5,932</b>	<b>\$ 14,528</b>	<b>\$ 300,827</b>	<b>\$ 315,355</b>	<b>\$</b>	<b>\$</b>

December 31, 2015:														
Loans receivable	\$		\$		\$		\$	31,655	\$	31,655	\$			
Residential														
and land														
development				323		323		610		933				
Real estate,														
under construction		851	448	1,346		2,645		32,769		35,414				
Real estate,														
mortgage		7,094	3,673	1,352		12,119		207,806		219,925	146			
Commercial														
and industrial		1,206	31	237		1,474		41,006		42,480				
Other		67				67		7,083		7,150				
Total	\$	9,218	\$	4,152	\$	3,258	\$	16,628	\$	320,929	\$	337,557	\$	146

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 to 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

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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, 2017, 2016 and 2015 is as follows (in thousands):

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## Loans With A Grade Of:

	A, B or C	S	D	E	F	Total
<b>December 31, 2017:</b>						
Gaming	\$ 26,142	\$	\$	\$	\$	\$ 26,142
Residential and land development				263		263
Real estate, construction	30,412		358	1,177		31,947
Real estate, mortgage	148,284	11,550	19,606	9,761		189,201
Commercial and industrial	23,133		265	2,962		26,360
Other	6,516		16	4		6,536
<b>Total</b>	<b>\$ 234,487</b>	<b>\$ 11,550</b>	<b>\$ 20,245</b>	<b>\$ 14,167</b>	<b>\$</b>	<b>\$ 280,449</b>
<b>December 31, 2016:</b>						
Gaming	\$ 31,311	\$	\$	\$	\$	\$ 31,311
Residential and land development				291		291
Real estate, construction	29,954	435	517	1,597		32,503
Real estate, mortgage	155,671	17,651	22,901	9,949		206,172
Commercial and industrial	13,926	21,680	867	562		37,035
Other	7,996		42	5		8,043
<b>Total</b>	<b>\$ 238,858</b>	<b>\$ 39,766</b>	<b>\$ 24,327</b>	<b>\$ 12,404</b>	<b>\$</b>	<b>\$ 315,355</b>
<b>December 31, 2015:</b>						
Gaming	\$ 31,655	\$	\$	\$	\$	\$ 31,655

Residential and land development	610		323	933	
Real estate, construction	31,935	883	2,596	35,414	
Real estate, mortgage	167,286	16,678	23,686	219,925	
Commercial and industrial	24,466	15,007	2,368	42,480	
Other	7,114	1	35	7,150	
Total	\$ 263,066	\$ 31,686	\$ 26,972	\$ 15,833	\$ 337,557



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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, 2017, 2016 and 2015 are as follows (in thousands):

December 31,	2017	2016	2015
Residential and land development	\$ 263	\$ 291	\$ 323
Real estate, construction	1,177	1,598	2,523
Real estate, mortgage	9,548	9,445	11,759
Commercial and industrial	2,818	515	581
Other	4	5	
Total	\$ 13,810	\$ 11,854	\$ 15,186

Prior to 2015, certain loans were modified by granting interest rate concessions to these customers with such loans being classified as troubled debt restructurings. During 2017, 2016 and 2015, the Company did not restructure any additional loans. Specific reserves of \$86,000, \$100,000 and \$107,000 have been allocated to troubled debt restructurings as of December 31, 2017, 2016, and 2015, respectively. The Bank had no commitments to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings as of December 31, 2017, 2016 and 2015.

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Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2017, 2016 and 2015 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017:					
With no related allowance recorded:					
Real estate, construction	\$ 1,441	\$ 967	\$	\$ 1,024	\$
Real estate, mortgage	8,920	8,025		8,654	31
Commercial and industrial	922	884		916	
Other	4	4		4	
<b>Total</b>	<b>11,287</b>	<b>9,880</b>		<b>10,598</b>	<b>31</b>
With a related allowance recorded:					
Residential and land development	263	263	40	275	
Real estate, construction	210	210	105	226	
Real estate, mortgage	3,556	2,672	725	2,676	28
Commercial and industrial	1,934	1,934	342	1,923	
<b>Total</b>	<b>5,963</b>	<b>5,079</b>	<b>1,212</b>	<b>5,100</b>	<b>28</b>
Total by class of loans:					
Residential and land development	263	263	40	275	
Real estate, construction	1,651	1,177	105	1,250	
Real estate, mortgage	12,476	10,697	725	11,330	59
Commercial and industrial	2,856	2,818	342	2,839	
Other	4	4		4	
<b>Total</b>	<b>\$ 17,250</b>	<b>\$ 14,959</b>	<b>\$ 1,212</b>	<b>\$ 15,698</b>	<b>\$ 59</b>

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	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016:					
With no related allowance recorded:					
Real estate, construction	\$ 2,023	\$ 1,331	\$	\$ 1,395	\$
Real estate, mortgage	11,811	9,282		10,582	23
Commercial and industrial	553	515		538	
Total	14,387	11,128		12,515	23
With a related allowance recorded:					
Residential and land development	291	291	66	304	
Real estate, construction	267	267	141	283	
Real estate, mortgage	1,347	1,347	195	1,080	30
Other	5	5	1	1	
Total	1,910	1,910	403	1,668	30
Total by class of loans:					
Residential and land development	291	291	66	304	
Real estate, construction	2,290	1,598	141	1,678	
Real estate, mortgage	13,158	10,629	195	11,662	53
Commercial and industrial	553	515		538	
Other	5	5	1	1	
Total	\$ 16,297	\$ 13,038	\$ 403	\$ 14,183	\$ 53

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	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>December 31, 2015:</b>					
With no related allowance recorded:					
Real estate, construction	\$ 2,228	\$ 1,842	\$	\$ 1,878	\$
Real estate, mortgage	9,771	9,014		9,175	21
Commercial and industrial	619	581		653	
<b>Total</b>	<b>12,618</b>	<b>11,437</b>		<b>11,706</b>	<b>21</b>
With a related allowance recorded:					
Residential and land development	323	323	109	343	
Real estate, construction	814	681	252	780	
Real estate, mortgage	3,977	3,977	1,443	3,920	18
<b>Total</b>	<b>5,114</b>	<b>4,981</b>	<b>1,804</b>	<b>5,043</b>	<b>18</b>
Total by class of loans:					
Residential and land development	323	323	109	343	
Real estate, construction	3,042	2,523	252	2,658	
Real estate, mortgage	13,748	12,991	1,443	13,095	39
Commercial and industrial	619	581		653	
<b>Total</b>	<b>\$ 17,732</b>	<b>\$ 16,418</b>	<b>\$ 1,804</b>	<b>\$ 16,749</b>	<b>\$ 39</b>

Transactions in the allowance for loan losses for the years ended December 31, 2017, 2016 and 2015, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2017, 2016 and 2015 are as follows (in thousands):

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	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2017:							
Allowance for Loan Losses:							
Beginning Balance	\$ 545	\$ 66	\$ 199	\$ 3,800	\$ 651	\$ 205	\$ 5,466
Charge-offs				(8)	(36)	(235)	(279)
Recoveries		686	32	29	11	92	850
Provision	(9)	(712)	(29)	484	266	116	116
Ending Balance	\$ 536	\$ 40	\$ 202	\$ 4,305	\$ 892	\$ 178	\$ 6,153
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	\$	\$ 40	\$ 105	\$ 1,082	\$ 636	\$ 6	\$ 1,869
Ending balance: collectively evaluated for impairment	\$ 536	\$	\$ 97	\$ 3,223	\$ 256	\$ 172	\$ 4,284
Total Loans:							
Ending balance: individually evaluated for impairment	\$	\$ 263	\$ 1,536	\$ 29,367	\$ 3,228	\$ 18	\$ 34,412
Ending balance: collectively evaluated for impairment	\$ 26,142	\$	\$ 30,411	\$ 159,834	\$ 23,132	\$ 6,518	\$ 246,037

December 31,  
2016:

Allowance for Loan Losses:														
Beginning														
Balance	\$	582	\$	189	\$	589	\$	5,382	\$	1,075	\$	253	\$	8,070
Charge-offs					(260)		(2,499)		(509)		(254)		(3,522)	
Recoveries					71		107		62		110		350	
Provision		(37)		(123)		(201)		810		23		96		568

Ending Balance	\$	545	\$	66	\$	199	\$	3,800	\$	651	\$	205	\$	5,466
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Allowance for Loan Losses:														
Ending balance:														
individually evaluated for impairment	\$		\$	66	\$	141	\$	424	\$	214	\$	15	\$	860

Ending balance:														
collectively evaluated for impairment	\$	545	\$		\$	58	\$	3,376	\$	437	\$	190	\$	4,606

Total Loans:														
Ending balance:														
individually evaluated for impairment	\$		\$	291	\$	2,114	\$	32,850	\$	1,430	\$	47	\$	36,732

Ending balance:														
collectively evaluated for impairment	\$	31,311	\$		\$	30,389	\$	173,322	\$	35,605	\$	7,996	\$	278,623

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	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2015:							
Allowance for Loan							
Losses:							
Beginning Balance	\$ 573	\$ 251	\$ 860	\$ 6,609	\$ 587	\$ 326	\$ 9,206
Charge-offs		(1,504)	(955)	(1,171)	(275)	(203)	(4,108)
Recoveries			102	190	19	79	390
Provision	9	1,442	582	(246)	744	51	2,582
Ending Balance	\$ 582	\$ 189	\$ 589	\$ 5,382	\$ 1,075	\$ 253	\$ 8,070

## Allowance for Loan

## Losses:

## Ending balance:

individually evaluated for  
impairment

\$		\$ 109	\$ 484	\$ 1,751	\$ 614	\$ 4	\$ 2,962
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## Ending balance:

collectively evaluated for  
impairment

\$ 582	\$ 80	\$ 105	\$ 3,631	\$ 461	\$ 249	\$ 5,108
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## Total Loans:

## Ending balance:

individually evaluated for  
impairment

\$	\$ 323	\$ 3,479	\$ 35,961	\$ 3,003	\$ 35	\$ 42,801
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## Ending balance:

collectively evaluated for  
impairment

\$ 31,655	\$ 610	\$ 31,935	\$ 183,964	\$ 39,477	\$ 7,115	\$ 294,756
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## NOTE D - BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2017	2016	2015
Land		\$ 5,783	\$ 5,792	\$ 5,982
Building	5 - 40 years	30,681	30,650	30,641
Furniture, fixtures and equipment	3 - 10 years	16,758	16,422	15,879

Totals, at cost	53,222	52,864	52,502
Less: Accumulated depreciation	33,069	31,220	30,056
Totals	\$ 20,153	\$ 21,644	\$ 22,446

NOTE E - OTHER REAL ESTATE:

The Company's other real estate consisted of the following as of December 31, 2017, 2016 and 2015, respectively (in thousands except number of properties):



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December 31,	2017		2016		2015	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	14	\$ 6,670	19	\$ 7,658	19	\$ 8,792
1 - 4 family residential properties	5	1,562	3	202	3	368
Nonfarm nonresidential			3	653	4	756
Total	19	\$ 8,232	25	\$ 8,513	26	\$ 9,916

**NOTE F- DEPOSITS:**

At December 31, 2017, the scheduled maturities of time deposits are as follows (in thousands):

2018	\$53,797
2019	24,780
2020	2,061
2021	1,498
2022	1,882
Total	\$84,018

Time deposits of \$250,000 or more totaled approximately \$20,494,000, \$25,143,000 and \$24,090,000 at December 31, 2017, 2016 and 2015, respectively.

Deposits held for related parties amounted to \$9,279,315, \$17,713,230 and \$7,640,079 at December 31, 2017, 2016 and 2015, respectively.

Overdrafts totaling \$466,812, \$800,557 and \$663,511 were reclassified as loans at December 31, 2017, 2016 and 2015, respectively.

**NOTE G - FEDERAL FUNDS PURCHASED:**

At December 31, 2017, 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, 2017, the Company was able to borrow up to \$18,399,650 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank's portfolio serving as collateral. Borrowings bear interest at 25 basis points over the current fed funds rate and have a maturity of one day. There was no outstanding balance at December 31, 2017.



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At December 31, 2017, the Company had \$11,197,954 outstanding in advances under a \$63,980,560 line of credit with the FHLB. One advance in the amount of \$10,000,000 bears interest at 1.45% at December 31, 2017, and matures in 2018. 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 to 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, 2017, 2016 and 2015, included in other assets, were as follows (in thousands):

December 31,	2017	2016	2015
<b>Deferred tax assets:</b>			
Allowance for loan losses	\$ 1,292	\$ 1,858	\$ 2,744
Employee benefit plans liabilities	3,048	4,784	4,633
Unrealized loss on available for sale securities, charged from equity	627	1,013	
Loss on credit impairment of securities	356	576	576
Earned retiree health benefits plan liability	1,012	1,638	1,638
General business and AMT credits	1,489	1,605	2,011
Tax net operating loss carryforward	1,891	3,423	2,514
Other	992	1,731	1,535
Valuation allowance	(7,934)	(11,560)	(10,106)
<b>Deferred tax assets</b>	<b>2,773</b>	<b>5,068</b>	<b>5,545</b>
<b>Deferred tax liabilities:</b>			
Unrealized gain on available for sale securities, charged to equity			180
Unearned retiree health benefits plan asset	202	720	734
Bank premises and equipment	2,359	4,011	4,369
Other	212	337	262
<b>Deferred tax liabilities</b>	<b>2,773</b>	<b>5,068</b>	<b>5,545</b>
<b>Net deferred taxes</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

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

Years Ended December 31,	2017	2016	2015
Current	\$ (1,080)	\$ 78	\$
Deferred:			
Federal	4,023	(247)	(2,728)
Change in valuation allowance	(4,023)	247	1,966
Total deferred			(762)
Totals	\$ (1,080)	\$ 78	\$ (762)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2017, 2016 and 2015 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2017		2016		2015	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	\$ 571	34	\$ 83	34	\$ (1,820)	(34)
Increase (decrease) resulting from:						
Tax-exempt interest income	(362)	(22)	(417)	(170)	(447)	(8)
Income from BOLI	(302)	(18)	(144)	(59)	(166)	(3)
Federal tax credits	(298)	(18)	(298)	(121)	(298)	(6)
Other	(656)	(39)	607	247	3	
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	(742)	(44)				
Other changes in valuation allowance	709	42	247	101	1,966	37
Total income tax (benefit) expense	\$ (1,080)	(65)	\$ 78	32	\$ (762)	(14)

During 2017, the Company recorded an income tax benefit of \$1,080,000. 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 repeals 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, the Company has reclassified the AMT credit carryforward to a tax receivable which resulted in a deferred tax benefit of \$742,000. 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.

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.

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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 \$9,004,000 will begin to expire in 2034.

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

For the year ended December 31, 2015, the Company recorded a tax benefit of \$762,000 in continuing operations and a corresponding income tax expense in other comprehensive income associated with the increase in unrealized gains on available for sale securities and the increase in the unrecognized gain related to the post-retirement benefit obligation in accordance with the intra-period tax allocation rules as outlined in Accounting Standards Codification Topic 740, Income Taxes.

**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, 2017, \$12,350,841 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank (FRB).

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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, 40,000 shares have been repurchased and retired through December 31, 2017.

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.

New rules relating to risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act became effective for the Company January 1, 2015. The rules establish a new Common equity tier 1 minimum capital requirement, increase the minimum capital ratios and assign a higher risk weight to certain assets based on the risk associated with these assets. Quantitative measures established by regulation to ensure capital adequacy require the bank subsidiary to maintain minimum amounts and ratios of Total, Common equity tier 1 and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets. Beginning January 1, 2016, the Company must hold a capital conservation buffer composed of Common equity tier 1 capital above its minimum risk-based capital requirements in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers.

As of December 31, 2017, 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, with a capital conservation buffer above these requirements of 1.25% for 2017. The buffer will increase annually until it is fully phased-in to 2.50% at January 1, 2019. 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 2017, 2016 and 2015, are as follows (in thousands):

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	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2017:</b>				
Total Capital (to Risk Weighted Assets)	\$ 97,122	25.12%	\$ 30,930	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	92,273	23.87%	17,398	4.50%
Tier 1 Capital (to Risk Weighted Assets)	92,273	23.87%	23,197	6.00%
Tier 1 Capital (to Average Assets)	92,273	13.79%	26,769	4.00%
<b>December 31, 2016:</b>				
Total Capital (to Risk Weighted Assets)	\$ 95,262	22.94%	\$ 33,220	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	18,687	4.50%
Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	24,915	6.00%
Tier 1 Capital (to Average Assets)	90,068	13.12%	27,464	4.00%
<b>December 31, 2015:</b>				
Total Capital (to Risk Weighted Assets)	\$ 95,395	21.83%	\$ 34,954	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	19,662	4.50%
Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	26,215	6.00%
Tier 1 Capital (to Average Assets)	89,901	13.18%	27,291	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 2017, 2016 and 2015, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2017:</b>						
Total Capital (to Risk Weighted Assets)	\$ 92,493	24.04%	\$ 30,778	8.00%	\$ 38,473	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	87,668	22.79%	17,313	4.50%	25,007	6.50%
Tier 1 Capital (to Risk Weighted Assets)	87,668	22.79%	23,084	6.00%	30,778	8.00%
Tier 1 Capital (to Average Assets)	87,668	13.47%	26,031	4.00%	32,539	5.00%
<b>December 31, 2016:</b>						
Total Capital (to Risk Weighted Assets)	\$ 91,882	22.29%	\$ 32,975	8.00%	\$ 41,219	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	18,548	4.50%	26,792	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	24,731	6.00%	32,975	8.00%
Tier 1 Capital (to Average Assets)	86,726	12.47%	27,820	4.00%	34,775	5.00%



December 31, 2015:

Total Capital (to Risk Weighted Assets)	\$ 91,963	21.09%	\$ 34,889	8.00%	\$ 43,611	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	19,625	4.50%	28,347	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	26,166	6.00%	34,889	8.00%
Tier 1 Capital (to Average Assets)	86,479	13.47%	25,680	4.00%	32,100	5.00%

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## NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2017	2016	2015
Other service charges, commissions and fees	\$ 99	\$ 116	\$ 109
Rentals	298	320	393
Other	84	223	212
Totals	\$ 481	\$ 659	\$ 714

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2017	2016	2015
Advertising	\$ 538	\$ 544	\$ 505
Data processing	1,289	1,346	1,403
FDIC and state banking assessments	424	901	928
Legal and accounting	422	566	785
Other real estate	740	868	2,264
ATM expense	582	555	1,183
Trust expense	307	370	355
Other	1,873	1,689	2,098
Totals	\$ 6,175	\$ 6,839	\$ 9,521

## 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



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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, 2017, 2016 and 2015, the Company had outstanding irrevocable letters of credit aggregating \$154,308, \$410,286 and \$1,919,678, respectively. At December 31, 2017, 2016 and 2015, the Company had outstanding unused loan commitments aggregating \$41,286,000, \$42,401,431 and \$41,935,725, respectively. Approximately \$19,691,000, \$16,476,000 and \$11,335,000 of outstanding commitments were at fixed rates and the remainder were at variable rates at December 31, 2017, 2016 and 2015, 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.

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## CONDENSED BALANCE SHEETS (IN THOUSANDS):

December 31,	2017	2016	2015
<b>Assets</b>			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	\$ 85,543	\$ 85,118	\$ 88,415
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	742	191	28
Other assets	3,213	3,151	3,395
<b>Total assets</b>	<b>\$ 89,499</b>	<b>\$ 88,461</b>	<b>\$ 91,839</b>
<b>Liabilities and Shareholders Equity:</b>			
Other liabilities	\$	\$	\$
Total liabilities			
Shareholders equity	89,499	88,461	91,839
<b>Total liabilities and shareholders equity</b>	<b>\$ 89,499</b>	<b>\$ 88,461</b>	<b>\$ 91,839</b>

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## CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2017	2016	2015
<b>Income</b>			
Distributed income of bank subsidiary	\$ 1,250	\$ 75	\$
Undistributed income (loss) of bank subsidiary	1,592	247	(4,242)
Other income (loss)	47	(32)	(208)
<b>Total income (loss)</b>	<b>2,889</b>	<b>290</b>	<b>(4,450)</b>
<b>Expenses</b>			
Other	131	123	142
<b>Total expenses</b>	<b>131</b>	<b>123</b>	<b>142</b>
<b>Income (loss) before income taxes</b>	<b>2,758</b>	<b>167</b>	<b>(4,592)</b>
Income tax benefit			
<b>Net income (loss)</b>	<b>\$ 2,758</b>	<b>\$ 167</b>	<b>\$ (4,592)</b>

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

Years Ended December 31,	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 2,758	\$ 167	\$ (4,592)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Income (loss) from other investments	(42)	51	218
Undistributed (income) loss of subsidiaries	(1,592)	(247)	4,242
Other assets	(20)	(8)	
<b>Net cash provided by (used in) operating activities</b>	<b>1,104</b>	<b>(37)</b>	<b>(132)</b>
<b>Cash flows from investing activities:</b>			
Redemption of equity securities		200	
<b>Net cash provided by investing activities</b>		<b>200</b>	
<b>Cash flows from financing activities:</b>			
Retirement of common stock	(502)		
Dividends paid	(51)		
<b>Net cash used in financing activities</b>	<b>(553)</b>		
<b>Net increase (decrease) in cash</b>	<b>551</b>	<b>163</b>	<b>(132)</b>
<b>Cash, beginning of year</b>	<b>191</b>	<b>28</b>	<b>160</b>
<b>Cash, end of year</b>	<b>\$ 742</b>	<b>\$ 191</b>	<b>\$ 28</b>

## 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, \$276,000 and \$260,000 in 2017, 2016 and 2015, respectively.





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Compensation expense of \$7,106,959, \$7,804,295 and \$7,576,755 was the basis for determining the ESOP contribution allocation to participants for 2017, 2016 and 2015, respectively. The ESOP held 270,455, 276,628 and 285,785 allocated shares at December 31, 2017, 2016 and 2015, 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 \$16,222,847, \$17,176,771 and \$16,820,058 at December 31, 2017, 2016 and 2015, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.25% in 2017 and 2016 and 4.50% in 2015, and the interest ramp-up method has been accrued. The accrual amounted to \$12,628,641, \$12,221,421 and \$11,813,343 at December 31, 2017, 2016 and 2015, 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 \$1,605,421, \$1,604,333 and \$1,473,607 at December 31, 2017, 2016 and 2015, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% and the projected unit cost method has been accrued. The accrual amounted to \$1,573,004, \$1,544,017 and \$1,519,537 at December 31, 2017, 2016 and 2015, 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 \$299,242, \$292,063 and \$284,664 at December 31, 2017, 2016 and 2015, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2017 and 2016 and 4.50% in 2015, and the projected unit cost method has been accrued. The accrual amounted to \$96,547, \$88,798 and \$82,202 at December 31, 2017, 2016 and 2015, respectively, and is included in Employee and director benefit plans liabilities.

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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 \$173,892, \$166,822 and \$157,051 at December 31, 2017, 2016 and 2015, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2017 and 2016 and 4.50% in 2015, and the projected unit cost method has been accrued. The accrual amounted to \$214,968, \$216,020 and \$212,662 at December 31, 2017, 2016 and 2015, 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,	2017	2016	2015
Service cost	\$ 153	\$ 93	\$ 94
Interest cost	135	101	102
Amortization of net gain		(73)	(44)
Amortization of prior service credit	(81)	(81)	(82)
Net periodic post-retirement benefit cost (credit)	\$ 207	\$ 40	\$ 70

The discount rate used in determining the accumulated post-retirement benefit obligation was 3.60% in 2017, 4.00% in 2016 and 4.20% in 2015. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.00% in 2017. The rate was assumed to decrease gradually to 4.50% for 2024 and remain at that level thereafter. If the health care cost trend rate assumptions were increased 1.00%, the accumulated post-retirement benefit

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obligation as of December 31, 2017, would be increased by 19.86%, 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 22.71%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2017, would be decreased by 15.66%, 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 17.52%.

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):

2018	\$	77
2019		49
2020		68
2021		95
2022		106
2023-2027		987

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, 2016	\$	2,514
Service cost		153
Interest cost		135
Actuarial loss		1,078
Benefits paid		(48)
Accumulated post-retirement benefit obligation as of December 31, 2017	\$	3,832

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

	2017	2016	2015
Fair value of plan assets at beginning of year	\$	\$	\$
Actual return on assets			
Employer contribution	48	75	37
Benefits paid, net	(48)	(75)	(37)
Fair value of plan assets at end of year	\$	\$	\$

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

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For the year ended December 31,	2017	2016	2015
Net gain	\$ 11	\$ 723	\$ 697
Prior service charge	622	676	730
Total accumulated other comprehensive income	\$ 633	\$ 1,399	\$ 1,427

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

For the year ended December 31,	2017
Unrecognized actuarial loss	\$ 1,079
Amortization of prior service cost	81
Total accumulated other comprehensive loss	\$ 1,160

The prior service credit that will be recognized in accumulated other comprehensive income during 2018 is \$81,381.

**NOTE P - FAIR VALUE MEASUREMENTS AND DISCLOSURES:**

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

**Fair Value Hierarchy**

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

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

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

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

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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



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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, 2017, 2016 and 2015, were as follows (in thousands):

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	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
December 31, 2017:				
U.S. Treasuries	\$ 122,644	\$	\$ 122,644	\$
U.S. Government agencies	19,831		19,831	
Mortgage-backed securities	88,261		88,261	
States and political subdivisions	14,470		14,470	
Equity securities	458		458	
<b>Total</b>	<b>\$ 245,664</b>	<b>\$</b>	<b>\$ 245,664</b>	<b>\$</b>
December 31, 2016:				
U.S. Treasuries	\$ 147,624	\$	\$ 147,624	\$
U.S. Government agencies	24,825		24,825	
Mortgage-backed securities	42,708		42,708	
States and political subdivisions	17,963		17,963	
Equity securities	458		458	
<b>Total</b>	<b>\$ 233,578</b>	<b>\$</b>	<b>\$ 233,578</b>	<b>\$</b>
December 31, 2015:				
U.S. Treasuries	\$ 63,754	\$	\$ 63,754	\$
U.S. Government agencies	84,546		84,546	
Mortgage-backed securities	30,130		30,130	
States and political subdivisions	23,727		23,547	180
Equity securities	650		650	
<b>Total</b>	<b>\$ 202,807</b>	<b>\$</b>	<b>\$ 202,627</b>	<b>\$ 180</b>

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2017, 2016 and 2015 were as follows (in thousands):

December 31:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
2017	\$ 6,511	\$		\$ 6,511
2016	5,006			5,006
2015	4,981			4,981

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, 2017, 2016 and 2015 are as follows (in thousands):

December 31:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3



2017	\$ 8,232	\$	\$	\$ 8,232
2016	8,513			8,513
2015	9,916			9,916

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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):

	2017	2016	2015
Balance, beginning of year	\$ 8,513	\$ 9,916	\$ 7,646
Loans transferred to ORE	1,946	1,903	7,502
Sales	(1,767)	(2,524)	(4,295)
Writedowns	(460)	(782)	(937)
Balance, end of year	\$ 8,232	\$ 8,513	\$ 9,916

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at December 31, 2017, 2016 and 2015, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
December 31, 2017:					
Financial Assets:					
Cash and due from banks	\$ 25,281	\$ 25,281	\$	\$	\$ 25,281
Available for sale securities	245,664		245,664		245,664
Held to maturity securities	51,163		50,538		50,538
Other investments	2,735	2,735			2,735
Federal Home Loan Bank stock	1,370		1,370		1,370
Loans, net	274,296			270,924	270,924
Other real estate	8,232			8,232	8,232
Cash surrender value of life insurance	18,301		18,301		18,301
Financial Liabilities:					
Deposits:					
Non-interest bearing	127,274	127,274			127,274
Interest bearing	402,296			402,610	402,610
Borrowings from Federal Home Loan Bank	11,198		11,389		11,389

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	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2016:</b>					
<b>Financial Assets:</b>					
Cash and due from banks	\$ 41,116	\$ 41,116	\$	\$	\$ 41,116
Available for sale securities	233,578		233,578		233,578
Held to maturity securities	48,150		46,935		46,935
Other investments	2,693	2,693			2,693
Federal Home Loan Bank stock	539		539		539
Loans, net	309,889			313,613	313,613
Other real estate	8,513			8,513	8,513
Cash surrender value of life insurance	19,249		19,249		19,249
<b>Financial Liabilities:</b>					
<b>Deposits:</b>					
Non-interest bearing	132,381	132,381			132,381
Interest bearing	442,635			442,937	442,937
Borrowings from Federal Home Loan Bank	6,257		6,491		6,491

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2015:</b>					
<b>Financial Assets:</b>					
Cash and due from banks	\$ 31,396	\$ 31,396	\$	\$	\$ 31,396
Available for sale securities	202,807		202,627	180	202,807
Held to maturity securities	19,025		19,220		19,220
Other investments	2,744	2,744			2,744
Federal Home Loan Bank stock	1,637		1,637		1,637
Loans, net	329,487			331,026	331,026
Other real estate	9,916			9,916	9,916
Cash surrender value of life insurance	18,735		18,735		18,735
<b>Financial Liabilities:</b>					
<b>Deposits:</b>					
Non-interest bearing	122,743	122,743			122,743
Interest bearing	389,964			390,205	390,205
Borrowings from Federal Home Loan Bank	18,409		19,731		19,731

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors

Peoples Financial Corporation

Biloxi, Mississippi

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the Company) as of December 31, 2017, 2016, and 2015 and the related consolidated statements of operations, comprehensive income (loss), changes in shareholder's equity and cash flows for the years 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, 2017, 2016, and 2015 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with 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 auditing 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.

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

Atlanta, Georgia

March 14, 2018

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**ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9a - CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of December 31, 2017, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the period ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Report on Internal Controls Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13(a)–15(f) of the Securities Exchange Act of 1934. In meeting its responsibility, management relies on its accounting and other related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in the Company's financial records and to safeguard the Company's assets from material loss or misappropriation.

Management of the Company, including its Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2017, using the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment included a review of the documentation of controls, evaluations of the design of the internal control system and tests of operating effectiveness of the internal controls. Based on the assessment, management has concluded that the Company had effective internal control over financial reporting as of December 31, 2017.

Chevis C. Swetman  
Chairman, President and Chief Executive Officer  
March 14, 2018

Lauri A. Wood  
Chief Financial Officer  
March 14, 2018

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**ITEM 9b - OTHER INFORMATION**

None.

**PART III**

**ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information in Sections II, III, VIII and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 25, 2018, which was filed by the Company in definitive form with the Commission on March 14, 2018, is incorporated herein by reference.

The Company's Board of Directors has adopted a Code of Conduct that applies to not only the chief executive officer and the chief financial officer, but also all of the officers, directors and employees of the Company and its subsidiaries. A copy of this Code of Conduct can be found at the Company's internet website at [www.thepeoples.com](http://www.thepeoples.com). The Company intends to disclose any amendments to its Code of Conduct, and any waiver from a provision of the Code of Conduct granted to the Company's Chief Executive Officer or Chief Financial Officer on the Company's internet website within five business days following such amendment or waiver. The information contained on or connected to the Company's internet website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report that the Company may file with or furnish to the SEC.

**ITEM 11 - EXECUTIVE COMPENSATION**

The information in Section VI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 25, 2018, which was filed by the Company in definitive form with the Commission on March 14, 2018, is incorporated herein by reference.

**ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information in Sections IV and V contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 25, 2018, which was filed by the Company in definitive form with the Commission on March 14, 2018, is incorporated herein by reference.

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**ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information in Sections III and VII contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 25, 2018, which was filed by the Company in definitive form with the Commission on March 14, 2018, is incorporated herein by reference.

**ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information in Section XI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 25, 2018, which was filed by the Company in definitive form with the Commission on March 14, 2018, is incorporated herein by reference.

**PART IV**

**ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Index of Financial Statements:

See Item 8.

(a) 2. Index of Financial Statement Schedules:

All other schedules have been omitted as not applicable or not required or because the information has been included in the financial statements or applicable notes.



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## (a) 3. Index of Exhibits:

Description	Incorporated by Reference to Registration or File Number	Form of Report	Date of Report	Exhibit Number in Report
(3.1) <u>Articles of Incorporation</u>	0-30050	10/a	6/21/1999	3.1
(3.2) <u>By-Laws</u>	0-30050	10/a	6/21/1999	3.2
(10.1) <u>Description of Automobile Plan</u>	0-30050	10-K	12/31/2003	10.1
(10.2) <u>Directors' Deferred Income Plan Agreements</u>	0-30050	10-K	12/31/2003	10.2
(10.3) <u>Executive Supplemental Income Plan Agreement - Chevis C. Swetman</u>	001-12103	10-Q	9/30/2007	10.2
(10.4) <u>Executive Supplemental Income Plan Agreement - A. Wes Fulmer</u>	001-12103	10-Q	9/30/2007	10.3
(10.5) <u>Executive Supplemental Income Plan Agreement - Lauri A. Wood</u>	001-12103	10-Q	9/30/2007	10.4
(10.6) <u>Split Dollar Agreements</u>	0-30050	10-K	12/31/2003	10.4
(10.7) <u>Deferred Compensation Plan</u>	001-12103	10-Q	9/30/2007	10.1
(10.8) <u>Description of Stock Incentive Plan</u>	33-15595	10-K	12/31/2001	10.6
(10.9) <u>Description of Bonus Plan</u>	001-12103	10-Q	9/30/2010	10.1
(21) Subsidiaries of the registrant (P)	33-15595	10-K	12/31/1988	22
(23.1) <u>Consent of Independent Registered Public Accounting Firm - Porter Keadle Moore, LLC*</u>				
(31.1) <u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *</u>				
(31.2) <u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *</u>				
(32.1) <u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. ss. 1350*</u>				
(32.2) <u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. ss. 1350*</u>				
(101) The following materials from the Company's 2017 Annual Report to Shareholders, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at December 31, 2017, 2016 and 2015, (ii) Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017, 2016 and 2015, (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015, (v) Consolidated Statements of Cash Flows for the years ended				

December 31, 2017, 2016 and 2015 and (vi) Notes to the Consolidated Financial Statements for the years ended December 31, 2017, 2016 and 2015.\*

\* Filed herewith.  
(P) Paper Filing.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEOPLES FINANCIAL CORPORATION

(Registrant)

Date: March 14, 2018

BY: /s/ Chevis C. Swetman

Chevis C. Swetman, Chairman of the Board

(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY: /s/ Chevis C. Swetman

Date: March 14, 2018

Chevis C. Swetman, Chairman, President and CEO

(principal executive officer)

BY: /s/ Drew Allen

Date: March 14, 2018

Drew Allen, Director

BY: \_\_\_\_\_

Date: \_\_\_\_\_

Dan Magruder, Director

BY: /s/ Rex E. Kelly

Date: March 14, 2018

Rex E. Kelly, Director

BY: /s/ Jeffrey H. O Keefe

Date: March 14, 2018

Jeffrey H. O Keefe, Director

BY: /s/ Lauri A. Wood

Date: March 14, 2018

Lauri A. Wood, Chief Financial Officer

(principal financial and accounting officer)

