PEOPLES FINANCIAL CORP /MS/
Form 10-K
March 18, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] 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, 2013 Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi	64-0709834
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Lameuse and Howard Avenues, Biloxi, Mississippi 39533	228-435-5511
(Address of principal executive offices) (Zip code)	(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on 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_

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 web site, 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__

(Do not check if a smaller reporting company)

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, 2013, the aggregate market value of the registrant s voting stock held by non-affiliates was approximately $62,102,000.

On February 21, 2014, the registrant had outstanding 5,123,186 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 23, 2014, 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 1984. The Company is headquartered in Biloxi, Mississippi. At December 31, 2013, 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, 2013, the Bank also had 16 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 is The Peoples Bank, which was originally chartered in 1896 in Biloxi, Mississippi. 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.

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. Each loan officer has board approved lending limits on the principal amount of secured and unsecured loans

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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 also offers a non-deposit funds management account, which is not insured by the Federal Deposit Insurance Corporation (FDIC). 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 offers personal trust, agencies and estate services, including living and testamentary trusts, executorships, guardianships, and conservatorships. Benefit accounts maintained by the 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 55 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, 2013, the Bank employed 168 full-time employees and 12 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 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. 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

Bank Holding Company

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 NASDAQ capital market exchange, such listing subjecting the Company to compliance with the exchange s requirements with respect to reporting and other rules and regulations.

The Company is a registered one bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to extensive regulation by the Board of Governors of the Federal Reserve System. As such, the Company is required to file periodic reports and provide additional information required by the Federal Reserve. The Federal Reserve Board may also make examinations of the Company and its subsidiaries.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board 1) before it may acquire substantially all the assets of any bank or ownership or control of any voting shares of any bank if, after the acquisition, it would own or control, directly or indirectly, more than 5 percent of the voting shares of the bank, 2) before it or any of its subsidiaries other than a bank may acquire all of the assets of a bank, 3) before it may merge with any other bank holding company or 4) before it may engage in permissible non-banking activities.

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A bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of, voting shares of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve to be so closely related to banking or the managing or controlling of banks as to be a proper incident thereto. Some of the activities the Federal Reserve Board has determined by regulation to be closely related to banking are the making and servicing of loans; performing certain bookkeeping or data processing services; acting as fiduciary or investment or financial advisor; making equity or debt investments in corporations or projects designed primarily to promote community welfare; and leasing transactions if the functional equivalent of an extension of credit and mortgage banking or brokerage. The Bank Holding Company Act does not place territorial limitations on permissible bank-related activities of bank holding companies. Despite prior approval, however, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or its control of any subsidiary when it has reasonable cause to believe that continuation of such activity or control of such subsidiary constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that holding company.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (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 able to enter new markets more freely.

The Gramm-Leach-Bliley Act of 1999 (the Financial Services Modernization Act) allows bank holding companies to engage in a wider range of financial activities. In order to engage in such activities, which, among others, include underwriting and selling insurance; providing financial, investment or economic advisory services; and underwriting, dealing in or making a market in securities, a bank holding company must elect to become a financial holding company. The Financial Services Modernization Act also authorized the establishment of financial subsidiaries in order to engage in such financial activities, with certain limitations.

The Financial Services Modernization Act also contains a number of other provisions affecting the Company s operations. One of the most important provisions relates to the issue of privacy as federal banking regulators were authorized to adopt rules designed to protect the financial privacy of consumers. These rules implemented notice requirements and restrictions on a financial institution s ability to disclose nonpublic personal information about consumers to non-affiliated third parties.

As of the date of this Annual Report on Form 10-K, the Company has not taken any action to adopt either the financial holding company or the financial subsidiary structures that were authorized by the Financial Services Modernization Act.

The Federal Reserve has adopted capital adequacy guidelines for use in its examination and regulation of bank holding companies. The regulatory capital of a bank holding company under applicable federal capital adequacy guidelines is particularly important in the Federal Reserve s evaluation of a holding company and any applications by the bank holding company to the Federal

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Reserve. A financial institution s failure to meet minimum regulatory capital standards can lead to other penalties, including termination of deposit insurance or appointment of a conservator or receiver for the financial institution. Risk-based capital ratios are the primary measure of regulatory capital presently applicable to bank holding companies. Risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets.

The Federal Reserve rates bank holding companies by a component and composite 1 - 5 rating system. This system is designed to help identify institutions which require special attention. Financial institutions are assigned ratings in the areas of capital adequacy, asset quality, management capability, the quality and level of earnings, the adequacy of liquidity and sensitivity to interest rate fluctuations based on the evaluation of the financial condition and operations.

The Company is a legal entity separate and distinct from the Bank. There are various restrictions that limit the ability of the Bank to finance, pay dividends or otherwise supply funds to the Company. In addition, the Bank is subject to certain restrictions on any extension of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sale of property or furnishing of services.

Bank Subsidiary

The Bank is subject to the regulation of and examination by the Mississippi Department of Banking and Consumer Finance (Department of Banking) and the FDIC. Areas subject to regulation include required reserves, investments, loans, mergers, branching, issuance of securities, payment of dividends, capital adequacy, management practices and other areas of banking operations. These regulatory authorities examine such areas as loan and investment quality, management practices, procedures and practices and other aspects of operations. In addition to these regular examinations, the Bank must furnish periodic reports to its regulatory authorities containing a full and accurate statement of affairs. The Bank is subject to deposit insurance assessments by the FDIC and assessments by the Department of Banking to provide operating funds for that agency.

The Bank is a member of the FDIC, and its deposits are insured by law by the Bank Insurance Fund (BIF). On December 19, 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was enacted. The Federal Deposit Insurance Act, as amended by Section 302 of FDICIA, calls for risk-related deposit insurance assessment rates. This risk classification of an institution will determine its deposit insurance premium. Assignment to one of the three capital groups, coupled with assignment to one of three supervisory sub-groups, determines which of the nine risk classifications is appropriate for an institution.

The Dodd-Frank Act changed the method of calculation for FDIC insurance assessments. Under the previous system, the assessment base was domestic deposits minus a few allowable exclusions. Under the Dodd-Frank Act, assessments are calculated based on the depository institution s average consolidated total assets, less its average amount of tangible equity.

In general, FDICIA subjects banks and bank holding companies to significantly increased regulation and supervision. FDICIA increased the borrowing authority of the FDIC in order to recapitalize the BIF, and the future borrowings are to be repaid by increased assessments on FDIC member banks. Other significant provisions of FDICIA require a new regulatory emphasis linking supervision to bank capital levels. Also, federal banking regulators are required to take prompt corrective regulatory action with respect to depository institutions that fall below specified capital levels and to draft non-capital regulatory measures to assure bank safety.

FDICIA further requires regulators to perform annual on-site bank examinations, places limits on real estate lending and tightens audit requirements. FDICIA eliminated the too big to fail doctrine, which protects uninsured deposits of large banks, and restricts the ability of undercapitalized banks to obtain extended loans from the Federal Reserve Board discount window. FDICIA also imposed new disclosure requirements relating to fees charged and interest paid on checking and deposit accounts. Most of the significant changes brought about by FDICIA required new regulations.

In addition to regulating capital, the FDIC has broad authority to prevent the development or continuance of unsafe or unsound banking practices. Pursuant to this authority, the FDIC has adopted regulations that restrict preferential loans and loan amounts to affiliates and insiders of banks, require banks to keep information on loans to major stockholders and executive officers and bar certain director and officer interlocks between financial institutions. The FDIC is also authorized to approve mergers, consolidations and assumption of deposit liability transactions between insured banks and between insured banks and uninsured banks or institutions to prevent capital or surplus diminution in such transactions where the resulting, continuing or assumed bank is an insured nonmember state bank.

Although the Bank is not a member of the Federal Reserve System, it is subject to Federal Reserve regulations that require the Bank to maintain reserves against transaction accounts, primarily checking accounts. Because reserves generally must be maintained in cash or in non-interest bearing accounts, the effect of the reserve requirement is to increase the cost of funds for the Bank.

The earnings of commercial banks and bank holding companies are affected not only by general economic conditions but also by the policies of various governmental regulatory authorities, including the Federal Reserve Board. In particular, the Federal Reserve Board regulates money and credit conditions, and interest rates, primarily through open market operations in U. S. Government securities, varying the discount rate of member and nonmember bank borrowing, setting reserve requirements against bank deposits and regulating interest rates payable by banks on certain deposits. These policies influence to a varying extent the overall growth and distribution of bank loans, investments, deposits and the interest rates charged on loans. The monetary policies of the Federal Reserve Board 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.

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to

Intercept and Obstruct Terrorism (the USA Patriot Act) was signed into law. The USA Patriot Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions and strengthened the ability of the U.S. Government to detect and prosecute international money laundering and the financing of terrorism. Financial institutions are required to establish anti-money laundering programs, implement regulations regarding verifications of the identity of persons seeking to open accounts and take additional required precautions with non-U.S. owned accounts.

The Emergency Economic Stabilization Act of 2008 (EESA) was enacted to restore liquidity and stability to the financial system. The Troubled Asset Relief Program (TARP) is one of the provisions of EESA. The Company did not participate in TARP. EESA also temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor and were originally in effect through December 31, 2013. This limit was subsequently raised permanently to $250,000. Additionally, the Federal Deposit Insurance Corporation (FDIC) announced on October 14, 2008, a new program, the Temporary Liquidity Guarantee Program (TLGP), which guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and provides full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount. The Company is participating in TLGP to provide full coverage on non-interest bearing transaction accounts.

The Dodd-Frank Act increases the supervisory authority of the Federal Reserve Board, creates a new Financial Services Oversight Council, creates a new process to liquidate failed financial firms, creates an independent Consumer Financial Protection Bureau, implements comprehensive regulation of over-the-counter derivatives, establishes a Federal Insurance Office and increases transparency and accountability for credit rating agencies. The Dodd-Frank Act calls for the completion of dozens of studies and reports and hundreds of new regulations. Final rules are still being drafted, so the Company continues to monitor developments to ensure it is compliant with Dodd-Frank.

In 2012, the federal regulators announced proposed rulemaking that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions. The revised rules are based on international capital accords of the Basel Committee on Banking Supervision (the Basel Committee). The Basel III proposal addresses components of capital and other issues affecting the numerator in banking institutions regulatory capital ratios. The Standardized Approach Proposal addresses risk weights and other issues affecting the denominator in banking institutions regulatory capital ratios. As a result of the implementation of these rules, financial institutions may be required to hold a greater amount of capital and a greater amount of common equity than they are currently required to hold.

Additional information relating to regulation and supervision is disclosed in Regulatory Matters which can be found in Item 7 in this Annual Report on Form 10-K.

Summary

The foregoing is a brief summary of certain statutes, rules and regulations affecting the Company and

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the Bank. It is not intended to be an exhaustive discussion of all the statutes and regulations having an impact on the operations of the Company or the Bank. Additional legislation may be enacted at the federal or state level which may alter the structure, regulation and competitive relationships of financial institutions. It cannot be predicted whether and, in what form, any of these proposals will be adopted or the extent to which the business of the Company or the Bank may be affected thereby.

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 2013, 2012 and 2011 on tax-exempt items (primarily interest on municipal securities).

Another significant statistic in the analysis of Net Interest Income is the effective interest differential, also called 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 area 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,

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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 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 2013 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 2009 2013 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.

The Company s dividend payout ratio for the years ended December 31, 2013, 2012 and 2011, was as follows:

For the Years Ended December 31,	2013	2012	2011
		39%	83%

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SCHEDULE I-A

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

For the Years Ended December 31,	2013	2012	2011
ASSETS:			
Cash and due from banks	$ 31,271	$ 31,307	$ 31,686
Available for sale securities:			
Taxable securities	247,097	264,248	269,401
Non-taxable securities	36,605	39,407	39,941
Other securities	2,316	3,856	2,868
Held to maturity securities:			
Non-taxable securities	9,936	4,698	1,882
Other investments	3,262	3,450	3,843
Net loans (2)	395,240	422,495	398,351
Federal funds sold	26,306	6,601	2,857
Other assets	59,503	56,708	61,215
TOTAL ASSETS	$ 811,536	$ 832,770	$ 812,044
LIABILITIES AND SHAREHOLDERS EQUITY:			
Non-interest bearing deposits	$ 109,695	$ 102,383	$ 100,854
Interest bearing deposits	369,926	380,389	395,713
Total deposits	479,621	482,772	496,567
Federal funds purchased and securities sold under agreements to repurchase	181,702	169,352	154,423
Other liabilities	43,957	70,164	56,840
Total liabilities	705,280	722,288	707,830
Shareholders equity	106,256	110,482	104,214
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 811,536	$ 832,770	$ 812,044

(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,	2013	2012	2011
INTEREST EARNING ASSETS:			
Loans (2)	$ 405,463	$ 430,205	$ 405,367
Federal funds sold	26,306	6,601	2,857
Available for sale securities:			
Taxable securities	247,097	264,248	269,401
Non-taxable securities	36,605	39,407	39,941
Other securities	2,316	3,856	2,868
Held to maturity securities:			
Non-taxable securities	9,936	4,698	1,882
TOTAL INTEREST EARNING ASSETS	$ 727,723	$ 749,015	$ 722,316
INTEREST BEARING LIABILITIES:			
Savings and negotiable interest bearing deposits	$ 246,728	$ 230,829	$ 226,097
Time deposits	123,198	149,560	169,617
Federal funds purchased and securities sold under agreements to repurchase	181,702	169,352	154,423
Other borrowed funds	27,293	54,188	37,825
TOTAL INTEREST BEARING LIABILITIES	$ 578,921	$ 603,929	$ 587,962

(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,	2013	2012	2011
INTEREST EARNED ON:			
Loans (1)	$ 18,927	$ 18,576	$ 17,923
Federal funds sold	69	16	7
Available for sale securities:			
Taxable securities	4,407	4,527	5,662
Non-taxable securities	1,946	2,073	2,041
Other securities	29	15	23
Held to maturity securities:			
Non-taxable securities	363	189	107
TOTAL INTEREST EARNED (1)	$ 25,741	$ 25,396	$ 25,763
INTEREST PAID ON:			
Savings and negotiable interest bearing deposits	$ 179	$ 410	$ 819
Time deposits	919	1,090	1,535
Federal funds purchased and securities sold under agreements to repurchase	158	335	638
Other borrowed funds	191	233	186
TOTAL INTEREST PAID	$ 1,447	$ 2,068	$ 3,178

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2013, 2012 and 2011.

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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,	2013	2012	2011
AVERAGE RATE EARNED ON:			
Loans	4.67%	4.32%	4.42%
Federal funds sold	.26%	.24%	.25%
Available for sale securities:			
Taxable securities	1.78%	1.71%	2.10%
Non-taxable securities	5.32%	5.26%	5.11%
Other securities	1.25%	.39%	.80%
Held to maturity securities:			
Non-taxable securities	3.65%	4.02%	5.69%
TOTAL (weighted average rate)(1)	3.54%	3.39%	3.57%
AVERAGE RATE PAID ON:			
Savings and negotiable interest bearing deposits	.07%	.18%	.36%
Time deposits	.75%	.73%	.90%
Federal funds purchased and securities sold under agreements to repurchase	.09%	.20%	.41%
Other borrowed funds	.70%	.43%	.49%
TOTAL (weighted average rate)	.25%	.34%	.54%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2013, 2012 and 2011.

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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,	2013	2012	2011
Total interest income (1)	$ 25,741	$ 25,396	$ 25,763
Total interest expense	1,447	2,068	3,178
Net interest earnings	$ 24,294	$ 23,328	$ 22,585
Net yield on interest earning assets	3.34%	3.11%	3.13%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2013, 2012 and 2011.

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SCHEDULE I-F

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2013	2012	Increase (Decrease)	Volume	Rate	Rate/Volume
INTEREST EARNED ON:						
Loans (1)(2)	$ 18,927	$ 18,576	$ 351	$ (1,068)	$ 1,505	$ (86)
Federal funds sold	69	16	53	48	1	4
Available for sale securities:						
Taxable securities	4,407	4,527	(120)	(294)	186	(12)
Non-taxable securities	1,946	2,073	(127)	(147)	22	(2)
Other securities	29	15	14	(6)	33	(13)
Held to maturity securities:						
Non-taxable securities	363	189	174	211	(17)	(20)
TOTAL INTEREST EARNED (3)	$ 25,741	$ 25,396	$ 345	$ (1,256)	$ 1,730	$ (129)
INTEREST PAID ON:						
Savings and negotiable interest bearing deposits	$ 179	$ 410	$ (231)	$ 28	$ (242)	$ (17)
Time deposits	919	1,090	(171)	(192)	26	(5)
Federal funds purchased and securities sold under agreements to repurchase	158	335	(177)	24	(188)	(13)
Other borrowed funds	191	233	(42)	(115)	147	(74)
TOTAL INTEREST PAID	$ 1,447	$ 2,068	$ (621)	$ (255)	$ (257)	$ (109)

(1) Loan fees of $911 and $797 for 2013 and 2012, respectively, are included in these figures.

(2) Includes interest on nonaccrual loans.

(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2013 and 2012.

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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,	2012	2011	Increase (Decrease)	Volume	Rate	Rate/Volume
INTEREST EARNED ON:						
Loans (1)(2)	$ 18,576	$ 17,923	$ 653	$ 1,098	$ (420)	$ (25)
Federal funds sold	16	7	9	9	(1)	1
Available for sale securities:						
Taxable securities	4,527	5,662	(1,135)	(108)	(1,047)	20
Non-taxable securities	2,073	2,041	32	(27)	60	(1)
Other securities	15	23	(8)	8	(12)	(4)
Held to maturity securities:						
Non-taxable securities	189	107	82	160	(31)	(47)
TOTAL INTEREST EARNED (3)	$ 25,396	$ 25,763	$ (367)	$ 1,140	$ (1,451)	$ (56)
INTEREST PAID ON:						
Savings and negotiable interest bearing deposits	$ 410	$ 819	$ (409)	$ 17	$ (419)	$ (7)
Time deposits	1,090	1,535	(445)	(182)	(299)	36
Federal funds purchased and securities sold under agreements to repurchase	335	638	(303)	62	(333)	(32)
Other borrowed funds	233	186	47	80	(23)	(10)
TOTAL INTEREST PAID	$ 2,068	$ 3,178	$ (1,110)	$ (23)	$ (1,074)	$ (13)

(1) Loan fees of $797 and $647 for 2012 and 2011, respectively, are included in these figures.

(2) Includes interest on nonaccrual loans.

(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2012 and 2011.

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SCHEDULE II-A

Book Value of Securities Portfolio

(In thousands)

December 31,	2013	2012	2011
Available for sale securities:			
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	$ 239,779	$ 220,635	$ 238,191
States and political subdivisions	35,011	37,591	40,077
Other securities	650	650	650
Total	$ 275,440	$ 258,876	$ 278,918
Held to maturity securities:			
States and political subdivisions	$ 11,142	$ 7,125	$ 1,429
Total	$ 11,142	$ 7,125	$ 1,429

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SCHEDULE II-B

Maturity Securities Portfolio at December 31, 2013

And Weighted Average Yields of Such Securities

	Maturity (In thousands, except percentage data)							
	Within one year		After one year but within five years		After five years but within ten years		After ten years	
December 31,	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale securities:								
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	$ 14,046	1.36%	$ 38,909	1.09%	$ 61,332	2.05%	$ 125,492	2.37%
States and political subdivisions	2,481	4.56%	11,143	3.50%	17,229	3.77%	4,158	3.93%
Other securities							650	2.00%
Total	$ 16,527	2.55%	$ 50,052	2.24%	$ 78,561	2.63%	$ 130,300	2.45%
Held to maturity securities:								
States and political subdivisions	$ 664	3.71%	$ 1,323	3.18%	$ 6,286	2.57%	$ 2,869	2.39%
Total	$ 664	3.71%	$ 1,323	3.18%	$ 6,286	2.57%	$ 2,869	2.39%

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,	2013	2012	2011	2010	2009
Real estate, construction	$ 64,390	$ 79,924	$ 90,068	$ 91,047	$ 94,460
Real estate, mortgage	259,082	298,283	286,502	260,286	299,403
Loans to finance agricultural production	726	43	1,164	1,122	1,755
Commercial and industrial	42,653	43,328	43,079	43,098	52,250
Loans to individuals for household, family and other consumer expenditures	7,139	7,933	8,327	10,687	9,049
Obligations of states and political subdivisions	1,023	1,248	2,840	2,938	7,891
All other loans	336	324	427	721	168
Total	$ 375,349	$ 431,083	$ 432,407	$ 409,899	$ 464,976

(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, 2013

	Maturity (In thousands)			
December 31,	One year or less	Over one year through 5 years	Over 5 years	Total
Real estate, construction	$ 3,160	$ 43,276	$ 17,954	$ 64,390
Real estate, mortgage	4,049	118,295	136,738	259,082
Loans to finance agricultural production		726		726
Commercial and industrial	3,521	36,387	2,745	42,653
Loans to individuals for household, family and other consumer expenditures	28	6,865	246	7,139
Obligations of states and political subdivisions	135	888		1,023
All other loans	113	223		336
Total	$ 11,006	$ 206,660	$ 157,683	$ 375,349
Loans with pre-determined interest rates	$ 5,496	$ 94,975	$ 50,483	$ 150,954
Loans with floating interest rates	5,510	111,685	107,200	224,395
Total	$ 11,006	$ 206,660	$ 157,683	$ 375,349

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SCHEDULE III-C

Non-Performing Loans (In thousands)

December 31,	2013	2012	2011	2010	2009
Loans accounted for on a nonaccrual basis (1)	$ 26,171	$ 53,891	$ 57,592	$ 14,537	$ 22,005
Loans which are contractually past due 90 or more days as to interest or principal payment, but are not included above	650	1,445	1,832	2,961	4,218

(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 2013 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,	2013	2012	2011	2010	2009
Average amount of loans outstanding (1)(2)	$ 405,463	$ 430,205	$ 405,367	$ 436,393	$ 467,992
Balance of allowance for loan losses at beginning of period	$ 8,857	$ 8,136	$ 6,650	$ 7,828	$ 11,114
Loans charged-off:					
Commercial, financial and agricultural	499	448	22	348	103
Consumer and other	9,623	3,228	1,650	7,943	8,977
Total loans charged-off	10,122	3,676	1,672	8,291	9,080
Recoveries of loans:					
Commercial, financial and agricultural	126	23	14	14	
Consumer and other	412	110	209	254	569
Total recoveries	538	133	223	268	569
Net loans charged-off	9,584	3,543	1,449	8,023	8,511
Provision for loan losses charged to operating expense	9,661	4,264	2,935	6,845	5,225
Total	$ 8,934	$ 8,857	$ 8,136	$ 6,650	$ 7,828
Ratio of net charge-offs during period to average loans outstanding	2.36%	0.82%	0.36%	1.84%	1.82%

(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)

	2013		2012		2011		2010		2009	
December 31,	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	$ 1,470	17	$ 1,167	18	$ 2,018	20	$ 2,090	22	$ 2,016	20
Real estate, mortgage	5,825	68	5,648	69	5,185	65	3,798	63	4,279	64
Loans to finance agricultural production		1		1	10	1	10	1	14	1
Commercial and industrial	1,338	11	1,760	9	629	10	550	10	1,420	11
Loans to individuals for household, family and other consumer expenditures	289	1	273	1	264	2	178	2	99	2
Obligations of states and political subdivisions		1		1		1		1		1
All other loans	12	1	9	1	30	1	24	1		1
Total	$ 8,934	100	$ 8,857	100	$ 8,136	100	$ 6,650	100	$ 7,828	100

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SCHEDULE V

Summary of Average Deposits and Their Yields

(In thousands, except percentage data)

Years Ended December 31,	2013 Amount	Rate	2012 Amount	Rate	2011 Amount	Rate
Demand deposits in domestic offices	$ 109,695	N/A	$ 102,383	N/A	$ 100,854	N/A
Negotiable interest bearing deposits in domestic offices	196,893	.08%	184,262	.20%	181,353	.42%
Savings deposits in domestic offices	49,835	.05%	46,567	.07%	44,744	.13%
Time deposits in domestic offices	123,198	.75%	149,560	.73%	169,617	.90%
Total	$ 479,621	.23%	$ 482,772	.31%	$ 496,568	.47%

Certificates of deposit in amounts of $100,000 or more by the amount of time remaining until maturity as of December 31, 2013, are as follows (in thousands):

Remaining maturity:	
3 months or less	$ 36,115
Over 3 months through 6 months	4,625
Over 6 months through 12 months	12,689
Over 12 months	7,090
Total	$ 60,519

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SCHEDULE VI

Short Term Borrowings

(In thousands, except percentage data)

	2013	2012	2011
Balance, December 31,	$ 209,638	$ 194,234	$ 206,601
Weighted average interest rate at December 31,	.14%	.02%	.09%
Maximum outstanding at any month-end during year	$ 338,083	$ 241,988	$ 226,038
Average amount outstanding during year	$ 208,995	$ 215,810	$ 188,954
Weighted average interest rate	.42%	.29%	.43%

Note: Short term borrowings include federal funds purchased from other banks and securities sold under agreements to repurchase and short term borrowings from the Federal Home Loan Bank.

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SCHEDULE VII

Interest Sensitivity/Gap Analysis

(In thousands)

December 31, 2013:	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
ASSETS:					
Loans (1)	$ 212,754	$ 10,629	$ 79,385	$ 46,410	$ 349,178
Available for sale securities	4,007	12,520	50,052	208,861	275,440
Held to maturity securities		664	1,323	9155	11,142
Totals	$ 216,761	$ 23,813	$ 130,760	$ 264,426	$ 635,760
FUNDING SOURCES:					
Interest bearing deposits	$ 262,563	$ 33,020	$ 25,858	$	$ 321,441
Federal funds purchased and securities sold under agreements to repurchase	139,639				139,639
Borrowings from FHLB	70,062	184	5,917	1,521	77,684
Totals	$ 472,264	$ 33,204	$ 31,775	$ 1,521	$ 538,764
REPRICING/MATURITY GAP:					
Period	$ (255,503)	$ (9,391)	$ 98,985	$ 262,905	
Cumulative	(255,503)	(264,894)	(165,909)	96,996	
Cumulative Gap/Total Assets	(33.52%)	(34.75%)	(21.77%)	12.72%	

(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 2013 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 affect 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 current economic downturn 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. 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 greater 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, 2013, approximately 87% 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. A continued deterioration in the economy affecting the value of real estate generally or in the Company s trade area specifically could significantly impair the value of the collateral and 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, 2013, these exposures were approximately $49,842,000 and $29,570,000 or 13 % and 8%, respectively, of the total loan portfolio. The recent downturn in the economy has negatively impacted tourism, which is one of the major factors for success in these industries. Given the size of these relationships, a significant loss in either of these portfolios could materially and adversely

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affect the Company s earnings.

The current 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. 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 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.

Current 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). The recent disruption in the financial markets has negatively impacted the availability of these unsecured funds. As a result, the Company has increased its borrowing lines with the FHLB and secured approval to participate in the Federal Reserve Bank 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 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 2013. During 2010, the Federal Reserve increased the discount rate 25 basis points; however, there was no effect on the fed funds or prime interest rates. Discount or fed funds rate changes that occur in 2014 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. EESA was enacted in 2008 to address the asset quality, capital and liquidity issues facing certain financial institutions and to improve the general availability of credit for consumers and businesses. In addition, the American Recovery and Reinvestment Act (ARRA) was passed in 2009 in an effort to save and create jobs, stimulate the national economy and promote long-term growth and stability. Dodd-Frank was passed in 2010 to increase transparency, accountability and oversight over financial firms and products as well as to provide protection to consumers. There can be no assurance that EESA, ARRA or Dodd-Frank 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 Department of Banking. New regulations issued by these agencies, including but not limited to those relating to 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.

The Company is also subject to 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.

The Company is subject to the requirements under The Sarbanes-Oxley Act of 2002 with respect to the assessment of internal controls over financial reporting.

The Company s management is required to report on the effectiveness of internal controls over financial reporting for each fiscal year end. The rules governing the standards that must be met for management to assess internal controls are complex and require significant documentation and testing. In connection with this effort, the Company has and will continue to incur increased expenses and diversion of Management s time and other internal resources. If the Company cannot make the required report, investor confidence in the Company s common stock could be adversely affected.

The Company is subject to anti-terrorism and money laundering legislation.

The Company is subject to the USA Patriot Act, the Bank Secrecy Act, and rules and regulations of

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the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and account relationships, intended to guard against money laundering and terrorism financing. Noncompliance with these rules and regulations may adversely affect the Company s operations and may impact the Company s business plans.

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.

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 20% 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.

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 result in a change of control. The banking agencies have 60 days to act on the notice, and take in to 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 Bank and the FDIC 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 17 business locations, including the Main Office, which is located at 152 Lameuse Street in Biloxi, MS, 39530. The Keesler Branch located at 1507 Meadows Drive, Keesler AFB, MS 39534, is rented from 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	412 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

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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

ITEM 3 - LEGAL PROCEEDINGS

Information relating to legal proceedings is included in Note M Contingencies to the 2013 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, 2013, there were 496 holders of the common stock of the Company. The Company s stock is traded under the symbol PFBX and is quoted in publications under PplFnMS .

The following table sets forth the high and low sale prices of the Company s common stock as reported on the NASDAQ Capital Market.

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

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ITEM 6 - SELECTED FINANCIAL DATA (In thousands except per share data)

	2013	2012	2011	2010	2009
Balance Sheet Summary					
Total assets	$ 762,264	$ 804,912	$ 804,152	$ 786,545	$ 869,007
Available for sale securities	275,440	258,875	278,918	287,078	311,434
Held to maturity securities	11,142	7,125	1,428	1,915	3,202
Loans, net of unearned discount	375,349	431,083	432,407	409,899	464,976
Deposits	428,558	475,719	468,439	484,140	470,701
Borrowings from FHLB	77,684	7,912	53,324	42,957	104,270
Shareholders equity	99,147	110,754	109,452	101,357	103,588
Summary of Operations					
Interest income	$ 24,956	$ 24,628	$ 25,033	$ 29,675	$ 34,289
Interest expense	1,447	2,067	3,178	4,601	7,401
Net interest income	23,509	22,561	21,855	25,074	26,888
Provision for loan losses	9,661	4,264	2,935	6,845	5,225
Net interest income after provision for loan losses	13,848	18,297	18,920	18,229	21,663
Non-interest income	9,067	9,529	9,860	10,114	10,147
Non-interest expense	25,654	25,277	28,781	27,581	27,636
Income (loss) before taxes	(2,739)	2,549	(1)	762	4,174
Applicable income taxes	(2,201)	(92)	(1,204)	(723)	954
Net income (loss)	$ (538)	$ 2,641	$ 1,203	$ 1,485	$ 3,220
Per Share Data					
Basic and diluted earnings per share	($ .10)	$ .51	$ .23	$ .29	$ .62
Dividends per share		.20	.19	.20	.50
Book value	19.35	21.56	21.31	19.68	20.11
Weighted average number of shares	5,128,889	5,136,918	5,136,918	5,151,661	5,170,430
Selected Ratios					
Return on average assets	(.07%)	0.32%	0.15%	0.18%	0.36%
Return on average equity	(.51%)	2.40%	1.14%	1.45%	3.06%
Primary capital to average assets	13.64%	14.71%	14.59%	12.96%	12.49%
Risk-based capital ratios:					
Tier 1	21.54%	20.04%	19.61%	21.01%	17.83%
Total	22.79%	21.29%	20.86%	22.26%	19.08%

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

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Forward-Looking Information

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

New Accounting Pronouncements

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

Critical Accounting Policies

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

Allowance for loan losses:

The Company s most critical accounting policy relates to its allowance for loan losses (ALL), which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The ALL is established and maintained at an amount sufficient to cover the estimated loss associated with the loan portfolio of the Company as of the date of the financial statements. Credit losses arise not only from credit risk, but also from other risks inherent in the lending process including, but not limited to, collateral risk, operation risk, concentration risk and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the ALL. On a quarterly basis, Management estimates the probable level of losses to determine whether the allowance is adequate to absorb reasonably foreseeable, anticipated losses in the existing portfolio based on our past loan loss experience, known and inherent risk in the portfolio, adverse situations that may affect borrowers ability to repay and the estimated value of any underlying collateral and current economic conditions. Management believes that the ALL is adequate and appropriate for all

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

Other Real Estate:

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

Employee Benefit Plans:

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

Income Taxes:

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

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OVERVIEW

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the amount by which interest income on loans, investments and other interest-earning assets exceeds interest expense on deposits and other borrowed funds, is the single largest component of the Company s income. Management s objective is to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risk. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities combined with changes in market rates of interest directly affect net interest income.

2013 as compared with 2012

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

Average interest-bearing liabilities decreased approximately $25,008,000, or 4%, from approximately $603,929,000 for 2012 to approximately $578,921,000 for 2013. During 2013, brokered deposits, which are reported as time deposits, of $23,612,000 matured. Borrowings from the FHLB fluctuate based on the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 9 basis points, from .34% for 2012 to .25% for 2013. Rates paid on deposit accounts and non-deposit accounts, which are reported as federal funds purchased and securities sold under agreements to repurchase, have decreased in 2013. The current unprecedented low rate environment which exists on a national and local level has caused customers to tolerate lower interest rates in return for less risk. The Company believes that it is unlikely that its cost of funds can be materially reduced further; however, any opportunity to do so will be considered.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.34% at December 31, 2013, up 23 basis points from 3.11% at December 31, 2012. Without the additional interest income and fees from the sale of the gaming loan, the net interest margin for 2013 would have been 3.13%.

2012 as compared with 2011

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

Average interest-bearing liabilities increased approximately $15,967,000, or 3%, from approximately $587,962,000 for 2011 to approximately $603,929,000 for 2012. The increase was primarily related to borrowings from the FHLB, which increased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 20 basis points, from .54% for 2011 to .34% for 2012. Rates paid on deposit accounts and non-deposit accounts, which are reported as federal funds purchased and securities sold under agreements to repurchase, decreased in 2012. The unprecedented low rate environment which exists on a national and local level caused customers to tolerate lower interest rates in return for less risk.

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

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

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Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

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

Net tax-equivalent margin on earning assets	3.34%	3.11%

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Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	2012			2011		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 430,205	$ 18,576	4.32%	$ 405,367	$ 17,923	4.42%
Federal funds sold	6,601	16	0.24%	2,857	7	0.25%
Held to maturity:						
Non taxable (4)	4,698	189	4.02%	1,882	107	5.69%
Available for Sale:						
Taxable	264,248	4,527	1.71%	269,401	5,662	2.10%
Non taxable (4)	39,407	2,073	5.26%	39,941	2,041	5.11%
Other	3,856	15	0.39%	2,868	23	0.80%
Total	$ 749,015	$ 25,396	3.39%	$ 722,316	$ 25,763	3.57%
Savings and interest-bearing DDA	$ 230,829	$ 410	0.18%	$ 226,097	$ 819	0.36%
Time deposits	149,560	1,090	0.73%	169,617	1,535	0.90%
Federal funds purchased and securities sold under agreements to repurchase	169,352	335	0.20%	154,423	638	0.41%
Borrowings from FHLB	54,188	233	0.43%	37,825	186	0.49%
Total	$ 603,929	$ 2,068	0.34%	$ 587,962	$ 3,178	0.54%
Net tax-equivalent spread			3.05%			3.03%

Net tax-equivalent margin on earning assets	3.11%	3.13%

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

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

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

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

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

Provision for Allowance for Loan Losses

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

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

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

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

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

Non-interest income

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

Total non-interest income decreased $331,000 in 2012 as compared with 2011. Trust department income and fees increased $90,000 as a result of fees relating to several large estates. Service charges on deposit accounts increased $128,000 in 2012 as compared with 2011. This increase was the result of a decrease in NSF fees of $90,000, which were impacted by the local economy and customers opting out of overdraft protection for debit card transactions, and an increase in ATM fees of $218,000 as a result of the improvement in the local casinos at which the Company has off-site ATMs. Gains from sales and calls of securities increased $238,000 as sales were executed when proceeds would be maximized. The Company had a loss from impairment of other investments of $360,000 in 2012 and a loss on other investments of $84,000 in 2012 as compared with income of $97,000 in 2011. Results in 2011 included gains from death benefits from life insurance of $470,000. Other income increased $152,000 in 2012 as compared with 2011. This increase was primarily attributable to an increase in rental income of $50,000 as the Company was able to lease previously vacant property and gains of $31,000 on the sale of bank vehicles.

Non-interest expense

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

Total non-interest expense decreased $3,504,000 in 2012 as compared with 2011. Salaries and employee benefits decreased $2,092,000 in 2012 as compared with 2011. Salaries decreased $723,000 in 2012 as compared with 2011 as the employee census decreased from attrition and the impact of the 2011 voluntary early retirement package. Expenses relating to deferred compensation plans decreased $565,000 in 2012 as a result of the 2011 voluntary early retirement package.

Expenses relating to the retiree health plan decreased $954,000 as a result of amendments made to the plan which require plan participants to utilize drug benefits and health insurance coverage available under Medicare. Equipment rentals, depreciation and maintenance decreased $226,000 in 2012 as compared with 2011. Rental expense decreased $113,000 in 2012 as the Company discontinued use of leased equipment during 2011. Depreciation on furniture and equipment decreased $157,000 as equipment replaced during the years after Hurricane Katrina becomes fully depreciated. Maintenance costs increased $49,000 as a result of the timing of work performed. Other expense decreased $1,270,000 for 2012 as compared with 2011. Included in other expense are data processing expense, which increased $576,000 as a result of the outsourcing of most of the bank s I/T functions, and ORE expenses, which were $702,000 less in 2012 as compared with 2011 primarily as a result of a decrease in write downs of other real estate to fair value. Other expense also includes FDIC assessments, which decreased $1,185,000 in 2012 as compared with 2011 as a result of the change in estimate of the prepaid FDIC assessments as of December 31, 2012.

Income Taxes

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

FINANCIAL CONDITION

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

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

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

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

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

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

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

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

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

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

Total deposits decreased $47,161,166 at December 31, 2013, as compared with December 31, 2012. Fluctuations in total deposits and among the different types of deposits represent recurring activity for the Company as customers in the gaming industry and state, county and municipal entities reallocate their resources periodically. In addition, brokered deposits, which are included as time deposits, $100,000 or more, of $23,612,000 matured during 2013. The Company anticipates that deposits will continue at or slightly above their present level during 2014.

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

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

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

SHAREHOLDERS EQUITY AND CAPITAL ADEQUACY

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

The measure of capital adequacy which is currently used by Management to evaluate the strength of the Company s capital is the primary capital ratio which was 13.64 % at December 31, 2013, which is well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as being well-capitalized by the banking regulatory authorities.

Significant transactions affecting shareholders equity during 2013 are described in Note J to the Consolidated Financial Statements. The Statement of Changes in Shareholders Equity also presents all activity in the Company s equity accounts.

LIQUIDITY

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

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

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

REGULATORY MATTERS

During 2009, Management identified opportunities for improving risk management, addressing asset quality concerns, managing concentrations of credit risk and ensuring sufficient liquidity at the Bank as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company has identified specific corrective steps and actions to enhance its risk management, asset quality and liquidity policies, controls and procedures.

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company is a party to off-balance-sheet arrangements in the normal course of business to meet the financing needs of its customers. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet arrangements. Since some of the commitments and irrevocable letters of credit may expire without being drawn upon, the total amount does not necessarily represent future cash requirements. As discussed previously, the Company carefully monitors its liquidity needs and considers its cash requirements, especially for loan commitments, in making decisions on investments and obtaining funds from its other sources. Further information relating to off-balance-sheet instruments can be found in Note L to the Consolidated Financial Statements.

ITEM 7a - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The Company has implemented a conservative approach to its asset/liability management. The net interest margin is managed on a daily basis largely as a result of the management of the liquidity needs of the bank subsidiary. The Company generally follows a policy of investing in short term

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U.S. Agency securities with maturities of two years or more. Due to the low interest rate environment, the duration of investments has been extended to fifteen years with call provisions. The loan portfolio consists of a 40% /60% blend of fixed and floating rate loans. It is the general loan policy to offer loans with maturities of seven years or less; however the market is now dictating floating rate terms to be extended up to twenty years. On the liability side, more than 75% of the deposits are demand and savings transaction accounts. Additionally, 85% of the certificates of deposit mature within eighteen months. Since the Company s deposits are generally not rate-sensitive, they are considered to be core deposits. The short term nature of the financial assets and liabilities allows the Company to meet the dual requirements of liquidity and interest rate risk management.

The interest rate sensitivity tables on the next page provide additional information about the Company s financial instruments that are sensitive to changes in interest rates. The negative gap in 2014 is mitigated by the nature of the Company s deposits, whose characteristics have been previously described. The tabular disclosure reflects contractual interest rate repricing dates and contractual maturity dates. Loan maturities have been adjusted for the allowance for loan losses. There have been no adjustments for such factors as prepayment risk, early calls of investments, the effect of the maturity of balloon notes or the early withdrawal of deposits. The Company does not believe that the aforementioned factors have a significant impact on expected maturity.

Interest rate sensitivity at December 31, 2013 and 2012 was as follows (in thousands):

								12/31/20
ember 31, 2013:	2014	2015	2016	2017	2018	Beyond	Total	Fair Valu
ns, net	$ 238,254	$ 8,187	$ 27,900	$ 11,528	$ 31,264	$ 49,282	$ 366,415	$ 369,11
erage rate	4.92%	6.23%	6.47%	5.83%	4.94%	4.45%	4.68%	
urities	17,191	5,940	20,128	12,197	13,110	225,112	293,678	293,22
erage rate	2.93%	3.06%	1.69%	2.38%	2.33%	2.43%	2.39%	
al Financial ets	255,445	14,127	48,028	23,725	44,374	274,394	660,093	662,33
erage rate	4.84%	5.40%	5.71%	4.79%	4.51%	3.01%	4.01%	
osits	295,583	10,183	2,428	7,948	5,299		321,441	322,53
erage rate	1.96%	1.43%	1.32%	1.18%	1.18%		1.86%	
eral funds chased and urities sold under eements to urchase	139,639						139,639	139,63
erage rate	0.09%						0.09%	
rowings from LB	70,246	254	251	5,233	179	1,521	77,684	79,05
erage rate	1.59%	4.58%	4.58%	1.64%	4.58%	1.67%	1.66%	
al Financial bilities	505,468	10,437	2,679	13,181	5,478	1,521	538,764	541,22
erage rate	1.87%	1.66%	2.18%	1.40%	1.57%	1.67%	1.80%	

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ember 31, 2012:	2013	2014	2015	2016	2017	Beyond	Total	Fair Val
ns, net	$ 265,343	$ 24,188	$ 22,805	$ 27,768	$ 26,879	$ 55,243	$ 422,226	$ 425,62
rage rate	4.83%	6.15%	6.09%	5.34%	5.32%	4.49%	5.04%	
urities	7,191	15,694	10,453	22,159	12,392	203,942	271,831	271,93
rage rate	3.35%	1.90%	2.54%	1.77%	2.62%	2.47%	2.31%	
al Financial ets	272,534	39,882	33,258	49,927	39,271	259,185	694,057	697,55
rage rate	4.82%	5.44%	5.52%	4.59%	4.82%	3.14%	4.42%	
osits	348,696	8,166	4,581	7,000	4,667		373,110	376,20
rage rate	4.69%	2.04%	1.77%	1.31%	1.31%		4.49%	
eral funds chased and urities sold under eements to urchase	194,234						194,234	194,23
rage rate	0.20%						0.20%	
rowings from LB	230	239	239	239	5,236	1,729	7,912	10,27
rage rate	4.89%	4.60%	4.60%	4.60%	3.56%	4.60%	4.60%	
al Financial bilities	543,160	8,405	4,820	7,239	9,903	1,729	575,256	580,71
rage rate	4.59%	2.20%	2.11%	1.66%	3.00%	4.60%	4.40%	

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands)

December 31,		**2013**		**2012**		**2011**
Assets						
Cash and due from banks	$	36,264	$	54,020	$	36,929
Available for sale securities		275,440		258,876		278,918
Held to maturity securities, fair value of $10,686 - 2013; $7,225 - 2012; $1,492 - 2011		11,142		7,125		1,429
Other investments		3,262		3,450		3,930
Federal Home Loan Bank Stock, at cost		3,834		2,380		2,581
Loans		375,349		431,083		432,407
Less: Allowance for loan losses		8,934		8,857		8,136
Loans, net		366,415		422,226		424,271
Bank premises and equipment, net of accumulated depreciation		25,308		26,222		28,035
Other real estate		9,630		7,008		6,153
Accrued interest receivable		2,607		2,895		2,698
Cash surrender value of life insurance		17,456		16,861		16,197
Prepaid FDIC assessments		251		1,705		2,096
Other assets		10,655		2,144		915
Total assets	$	762,264	$	804,912	$	804,152

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

December 31,	**2013**	**2012**	**2011**
Liabilities and Shareholders Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 107,117	$ 102,609	$ 97,581
Savings and demand, interest bearing	217,005	232,401	205,319
Time, $100,000 or more	60,519	94,606	115,014
Other time deposits	43,917	46,103	50,525
Total deposits	428,558	475,719	468,439
Federal funds purchased and securities sold under agreements to repurchase	139,639	194,234	157,601
Borrowings from Federal Home Loan Bank	77,684	7,912	53,324
Employee and director benefit plans liabilities	12,725	12,162	11,311
Other liabilities	4,511	4,131	4,025
Total liabilities	663,117	694,158	694,700
Shareholders Equity:			
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2013 and 5,136,918 at December 31, 2012 and 2011	5,123	5,137	5,137
Surplus	65,780	65,780	65,780
Undivided profits	34,259	34,964	33,351
Accumulated other comprehensive income (loss), net of tax	(6,015)	4,873	5,184
Total shareholders equity	99,147	110,754	109,452

Total liabilities and shareholders equity	$ 762,264	$ 804,912	$ 804,152

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)

Years Ended December 31,	**2013**	**2012**	**2011**
Interest income:			
Interest and fees on loans	$ 18,927	$ 18,577	$ 17,923
Interest and dividends on securities:			
U. S. Treasuries	590	463	236
U.S. Government agencies	3,114	3,777	5,320
Mortgage-backed securities	703	287	106
States and political subdivisions	1,524	1,493	1,418
Other investments	29	15	23
Interest on federal funds sold	69	16	7
Total interest income	24,956	24,628	25,033
Interest expense:			
Deposits	1,098	1,500	2,354
Borrowings from Federal Home Loan Bank	191	232	186
Federal funds purchased and securities sold under agreements to repurchase	158	335	638
Total interest expense	1,447	2,067	3,178
Net interest income	23,509	22,561	21,855
Provision for allowance for loan losses	9,661	4,264	2,935
Net interest income after provision for allowance for loan losses	$ 13,848	$ 18,297	$ 18,920

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)

Years Ended December 31,	**2013**	**2012**	**2011**
Non-interest income:			
Trust department income and fees	$ 1,423	$ 1,458	$ 1,368
Service charges on deposit accounts	6,236	5,911	5,783
Gain on liquidation, sales and calls of securities	258	1,364	1,126
Loss on impairment of other investments		(360)	
Income (loss) on other investments	42	(84)	97
Increase in cash surrender value of life insurance	501	573	501
Gain on death benefits from life insurance			470
Other income	607	667	515
Total non-interest income	9,067	9,529	9,860
Non-interest expense:			
Salaries and employee benefits	11,568	11,992	14,084
Net occupancy	2,415	2,434	2,350
Equipment rentals, depreciation and maintenance	2,878	3,106	3,332
Other expense	8,793	7,745	9,015
Total non-interest expense	25,654	25,277	28,781
Income (loss) before income taxes	(2,739)	2,549	(1)
Income tax benefit	2,201	92	1,204
Net income (loss)	$ (538)	$ 2,641	$ 1,203

Basic and diluted earnings (loss) per share	$	(.10)	$	.51	$	.23
Dividends declared per share	$		$	.20	$	.19

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

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

See Notes to Consolidated Financial Statements.

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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
Balance, January 1, 2011	5,151,139	$ 5,151	$ 65,780	$ 33,302	$ (2,877)	$ 101,356
Net income				1,203		1,203
Other comprehensive income, net of tax					8,061	8,061
Cash dividend ($.09 per share)				(462)		(462)
Dividend declared ($.10 per share)				(514)		(514)
Retirement of stock	(14,221)	(14)		(178)		(192)
Balance, December 31, 2011	5,136,918	5,137	65,780	33,351	5,184	109,452
Net income				2,641		2,641
Other comprehensive loss, net of tax					(311)	(311)
Cash dividend ($.20 per share)				(1,028)		(1,028)
Balance, December 31, 2012	5,136,918	5,137	65,780	34,964	4,873	110,754
Net loss				(538)		(538)
Other comprehensive loss, net of tax					(10,888)	(10,888)
Retirement of stock	(13,732)	(14)		(167)		(181)
Balance, December 31, 2013	5,123,186	$ 5,123	$ 65,780	$ 34,259	$ (6,015)	$ 99,147

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

Years Ended December 31,	**2013**	**2012**	**2011**
Cash flows from operating activities:			
Net income (loss)	$ (538)	$ 2,641	$ 1,203
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,750	2,048	2,210
Provision for allowance for loan losses	9,661	4,264	2,935
Writedown of other real estate	670	153	711
Loss on sales of other real estate	63	21	180
Loss on impairment of other investments		360	
(Income) loss on other investments	(42)	84	(97)
Accretion of held to maturity securities	(2)	(1)	(3)
Gain on liquidation, sales and calls of securities	(258)	(1,364)	(1,126)
Gain on death benefits from life insurance			(470)
Increase in cash surrender value of life insurance	(501)	(573)	(501)
Gain on sale of bank premises and equipment	(15)		
Change in accrued interest receivable	288	(197)	594
Change in other assets	(467)	600	4,061
Change in other liabilities	(1,122)	(211)	96
Net cash provided by operating activities	$ 9,487	$ 7,825	$ 9,793

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands)

Years Ended December 31,	**2013**	**2012**	**2011**
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	$ 142,355	$ 358,404	$ 358,538
Purchases of available for sale securities	(174,074)	(337,067)	(341,857)
Proceeds from maturities of held to maturity securities	795	170	489
Purchases of held to maturity securities	(4,810)	(5,865)	
Purchases of Federal Home Loan Bank Stock	(1,454)		(300)
Redemption of Federal Home Loan Bank Stock		201	
Redemption of other investments	230	36	93
Proceeds from sales of other real estate	1,125	1,546	1,921
Loans, net change	41,613	(4,794)	(27,180)
Acquisition of premises and equipment	(840)	(235)	(489)
Proceeds from sales of banking premises and equipment	19		
Proceeds from death benefits from life insurance			805
Insurance proceeds from casualty loss on other real estate	57		
Investment in cash surrender value of life insurance	(94)	(91)	(79)
Net cash provided by (used in) investing activities	4,922	12,305	(8,059)
Cash flows from financing activities:			
Demand and savings deposits, net change	(10,888)	32,110	991
Time deposits, net change	(36,273)	(24,830)	(16,691)
Cash dividends		(1,541)	(925)
Retirement of common stock	(181)		(193)
Borrowings from Federal Home Loan Bank	868,560	2,246,717	500,975
Repayments to Federal Home Loan Bank	(798,788)	(2,292,128)	(490,608)
Federal funds purchased and securities sold under agreements to repurchase, net change	(54,595)	36,633	17,499
Net cash provided by (used in) financing activities	(32,165)	(3,039)	11,048
Net increase (decrease) in cash and cash equivalents	(17,756)	17,091	12,782
Cash and cash equivalents, beginning of year	54,020	36,929	24,147
Cash and cash equivalents, end of year	$ 36,264	$ 54,020	$ 36,929

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE A BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business of The Company

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

Principles of Consolidation

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

Basis of Accounting

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

New Accounting Pronouncements

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

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

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

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

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

Cash and Due from Banks

The Company is required to maintain average reserve balances in its vault or on deposit with the

Federal Reserve Bank. The average amount of these reserve requirements was approximately $407,000, $566,000 and $701,000 for the years ending December 31, 2013, 2012 and 2011, respectively.

Securities

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

Other Investments

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

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

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

Allowance for Loan Losses

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

The ALL is based on Management s evaluation of the loan portfolio under current economic conditions and is an amount that Management believes will be adequate to absorb probable losses on

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

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

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

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

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

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

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

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

Bank Premises and Equipment

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

Other Real Estate

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

Trust Department Income and Fees

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

Income Taxes

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

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

Post-Retirement Benefit Plan

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

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Earnings Per Share

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

Accumulated Other Comprehensive Income

At December 31, 2013, 2012 and 2011, accumulated other comprehensive income (loss) consisted of net unrealized gains (losses) on available for sale securities and over (under) funded liabilities related to the Company s post-retirement benefit plan.

Statements of Cash Flows

The Company has defined cash and cash equivalents to include cash and due from banks and federal funds sold. The Company paid $1,470,945, $2,082,914 and $3,222,385 in 2013, 2012 and 2011, respectively, for interest on deposits and borrowings. Income tax payments totaled $810,000, $835,000 and $755,000 in 2013, 2012 and 2011, respectively. Loans transferred to other real estate amounted to $4,536,710, $2,575,520 and $3,221,510 in 2013, 2012 and 2011, respectively. Dividends payable of $513,692 and $462,323 as of December 31, 2011 and 2010 were paid during the years ended December 31, 2012 and 2011, respectively.

Fair Value Measurement

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

NOTE B SECURITIES:

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

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

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

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

The amortized cost and fair value of debt securities at December 31, 2013, (in thousands) by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 16,442	$ 16,527
Due after one year through five years	49,769	50,052
Due after five years through ten years	80,136	78,561
Due after ten years	87,825	79,324
Mortgage-backed securities	51,454	50,326
Totals	$ 285,626	$ 274,790
Held to maturity securities:		
Due in one year or less	$ 664	$ 671
Due after one year through five years	1,323	1,320
Due after five years through ten years	6,286	6,125
Due after ten years	2,869	2,570
Totals	$ 11,142	$ 10,686

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2013, 2012 and 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

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	Less Than Twelve Months		Over Twelve Months		Total	
December 31, 2013:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 29,708	$ 1,042	$	$	$ 29,708	$ 1,042
U.S. Government agencies	113,446	10,322	4,621	379	118,067	10,701
Mortgage-backed securities	44,269	1,269			44,269	1,269
States and political subdivisions	7,690	470			7,690	470
TOTAL	$ 195,113	$ 13,103	$ 4,621	$ 379	$ 199,734	$ 13,482
December 31, 2012:						
U.S. Treasuries	$ 9,887	$ 55	$	$	$ 9,887	$ 55
U.S. Government agencies	30,335	364			30,335	364
States and political subdivisions	1,451	12			1,451	12
TOTAL	$ 41,673	$ 431	$	$	$ 41,673	$ 431
December 31, 2011:						
U.S. Treasuries	$ 16,976	$ 18	$	$	$ 16,976	$ 18
U.S. Government agencies	15,075	26			15,075	26
TOTAL	$ 32,051	$ 44	$	$	$ 32,051	$ 44

At December 31, 2013, 7 of the 11 securities issued by the U.S. Treasury, 25 of the 31 securities issued by U.S. Government agencies, 11 of the 13 mortgage-backed securities and 28 of the 143 securities issued by states and political subdivisions contained unrealized losses.

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

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available for sale, until maturity. As a result of this evaluation, the Company has determined that the declines summarized in the tables above are not deemed to be other-than-temporary.

Proceeds from sales of available for sale debt securities were $26,075,225, $77,605,104 and $60,714,150 during 2013, 2012 and 2011, respectively. Available for sale debt securities were sold and called for realized gains of $257,997, $1,363,802 and $1,126,055 during 2013, 2012 and 2011, respectively. The Company recorded a loss from the impairment of its other investments of $360,000 in 2012.

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

NOTE C - LOANS:

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

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

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

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

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

December 31,		2013		2012		2011
Gaming	$	29,570	$	60,187	$	57,219
Hotel/motel		49,842		52,776		46,956
Out of area		24,945		25,413		26,171

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2013, 2012 and 2011 is as follows (in thousands):

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	Number of Days Past Due						Loans Past Due Greater Than 90 Days and Still Accruing
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	
December 31, 2013:							
Gaming	$	$	$	$	$ 29,570	$ 29,570	$
Residential and land development	51		13,572	13,623	5,780	19,403	
Real estate, construction	3,846		9,452	13,298	31,689	44,987	146
Real estate, mortgage	6,910	2,684	5,134	14,728	222,430	237,158	505
Commercial and industrial	1,192			1,192	33,815	35,007	
Other	227	5		232	8,992	9,224	
Total	$ 12,226	$ 2,689	$ 28,158	$ 43,073	$ 332,276	$ 375,349	$ 651
December 31, 2012:							
Gaming	$	$ 1,721	$	$ 1,721	$ 58,466	$ 60,187	$
Residential and land development			5,765	5,765	21,573	27,338	
Real estate, construction	3,989	878	6,151	11,018	41,568	52,586	572
Real estate, mortgage	12,012	2,702	7,605	22,319	224,101	246,420	872
Commercial and industrial	1,804	79	107	1,990	33,014	35,004	
Other	127	26	1	154	9,394	9,548	1
Total	$ 17,932	$ 5,406	$ 19,629	$ 42,967	$ 388,116	$ 431,083	$ 1,445
December 31, 2011:							
Gaming	$	$	$	$	$ 57,219	$ 57,219	$
			24,161	24,161	4,865	29,026	

Residential and land development							
Real estate, construction	2,084	1,395	6,364	9,843	51,199	61,042	376
Real estate, mortgage	13,569	2,341	12,963	28,873	209,538	238,411	1,314
Commercial and industrial	1,536	166	388	2,090	31,860	33,950	142
Other	184	23	131	338	12,421	12,759	
Total	$ 17,373	$ 3,925	$ 44,007	$ 65,305	$ 367,102	$ 432,407	$ 1,832

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

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2013, 2012 and 2011 is as follows (in thousands):

	Loans With A Grade Of:					
	A or B	C	D	E	F	Total
December 31, 2013:						
Gaming	$ 23,975	$ 2,500	$	$ 3,095	$	$ 29,570
Residential and land development	4,236	1,544	51	13,572		19,403
Real estate, construction	38,808	781	2,220	3,178		44,987
Real estate, mortgage	204,569	4,495	17,852	10,242		237,158
Commercial and industrial	31,902	682	2,402	21		35,007
Other	9,131	24	50	19		9,224
Total	$ 312,621	$ 10,026	$ 22,575	$ 30,127	$	$ 375,349
December 31, 2012:						
Gaming	$ 27,530	$ 12,300	$ 4,108	$ 16,249	$	$ 60,187
Residential and land development	4,630	1,544	81	21,083		27,338
Real estate, construction	43,318	1,001	2,701	5,566		52,586
Real estate, mortgage	209,479	3,093	21,167	12,681		246,420
Commercial and industrial	32,036	442	2,312	214		35,004
Other	9,449	27	72			9,548
Total	$ 326,442	$ 18,407	$ 30,441	$ 55,793	$	$ 431,083
December 31, 2011:						
Gaming	$ 41,817	$	$	$ 15,402	$	$ 57,219

Residential and land development	4,865		51	24,110		29,026
Real estate, construction	50,798	357	3,695	6,192		61,042
Real estate, mortgage	197,509	2,862	25,870	12,170		238,411
Commercial and industrial	23,972	6,551	3,077	350		33,950
Other	12,268	40	384	67		12,759
Total	$ 331,229	$ 9,810	$ 33,077	$ 58,291	$	$ 432,407

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

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

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of December 31, 2013, 2012 and 2011, were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
December 31, 2013:				
Real estate, construction	2	$ 891	$ 891	$ 270
Real estate, mortgage	6	10,012	10,012	994
Commercial and industrial	1	678	678	
Total	9	$ 11,581	$ 11,581	$ 1,264
December 31, 2012:				
Real estate, construction	3	$ 1,095	$ 1,095	$ 340
Real estate, mortgage	3	9,054	9,054	957
Commercial and industrial	1	702	702	
Total	7	$ 10,851	$ 10,851	$ 1,297
December 31, 2011:				

Real estate, construction	3	$	1,075	$	1,075	$	112
Real estate, mortgage	5		9,916		9,916		809
Commercial and industrial	1		706		706		
Total	9	$	11,697	$	11,697	$	921

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

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

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	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013:					
With no related allowance recorded:					
Residential and land development	$ 4,425	$ 4,425	$	$ 4,465	$
Real estate, construction	2,294	2,294		2,054	26
Real estate, mortgage	9,722	9,123		9,097	26
Commercial and industrial	678	678		689	24
Total	17,119	16,520		16,305	76
With a related allowance recorded:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	17,576	9,147	471	15,909	
Real estate, construction	1,185	1,185	337	1,239	23
Real estate, mortgage	9,677	9,677	1,110	8,801	306
Total	30,136	21,232	2,544	27,265	329
Total by class of loans:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	22,001	13,572	471	20,374	
Real estate, construction	3,479	3,479	337	3,293	49
Real estate, mortgage	19,399	18,800	1,110	17,898	332
Commercial and industrial	678	678		689	24
Total	$ 47,255	$ 37,752	$ 2,544	$ 43,570	$ 405

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	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012:					
With no related allowance recorded:					
Gaming	$ 14,528	$ 14,528	$	$ 14,869	$
Residential and land development	21,837	20,733		21,288	
Real estate, construction	4,635	4,580		3,833	
Real estate, mortgage	9,971	9,935		9,821	
Commercial and industrial	892	892		791	23
Total	51,863	50,668		50,602	23
With a related allowance recorded:					
Gaming	1,721	1,721	1,100		
Residential and land development	350	350	70	350	
Real estate, construction	1,694	1,686	663	1,314	8
Real estate, mortgage	10,893	10,293	1,229	10,199	319
Commercial and industrial	24	24	12		
Total	14,682	14,074	3,074	11,863	327
Total by class of loans:					
Gaming	16,249	16,249	1,100	14,869	
Residential and land development	22,187	21,083	70	21,638	
Real estate, construction	6,329	6,266	663	5,147	8
Real estate, mortgage	20,864	20,228	1,229	20,020	319
Commercial and industrial	916	916	12	791	23
Total	$ 66,545	$ 64,742	$		