

PEOPLES FINANCIAL CORP /MS/
Form 10-K
March 15, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

OR

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

For the fiscal year ended December 31, 2016 Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi
(State or other jurisdiction of incorporation or organization)

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

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

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

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

Name of Each Exchange on

Title of Each Class

Which Registered

None

None

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

Common, \$1.00 Par Value

(Title of each class)

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

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

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

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

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

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

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

Large accelerated filer ___ Accelerated filer ___ Non-Accelerated filer ___ Smaller reporting company X

(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, 2016, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$47,946,000.

On February 17, 2017, 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 26, 2017, are incorporated by reference into Part III of this report.

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PART I

ITEM 1 - DESCRIPTION OF BUSINESS

BACKGROUND AND CURRENT OPERATIONS

General

Peoples Financial Corporation (the Company) was organized as a one bank holding company in 1985. The Company is headquartered in Biloxi, Mississippi. At December 31, 2016, 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, 2016, the Bank also had 17 branches located throughout Harrison, Hancock, Jackson and Stone Counties. The Bank has automated teller machines (ATM) at its Main Office, all branch locations and at numerous non-proprietary locations.

The Bank Subsidiary

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

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

Nonbank Subsidiary

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

Products And Services

The Bank currently offers a variety of services to individuals and small to middle market businesses within its trade area. The Company's trade area is defined as those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the bank subsidiary's three most outlying locations.

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

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

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

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

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

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

Customers

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

Employees

At December 31, 2016, the Bank employed 157 full-time employees and 11 part-time employees. The Company has no employees who are not employees of the bank subsidiary. Through the Bank, employees receive salaries and benefits, which include 401(k) and ESOP plans, cafeteria plan, and life, health and disability insurance. The Company considers its relationship with its employees to be good.

Competition

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

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

Miscellaneous

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

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

Available Information

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

REGULATION AND SUPERVISION

General

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

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

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

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

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

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

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

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

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

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

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

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

In addition, the Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the SEC under federal securities laws. The common stock of the Company is listed on the 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 Dodd-Frank Act

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

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

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

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

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

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

Dividends

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

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

Capital

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

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

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

minimizes disincentives to holding liquid, low-risk assets.

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

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

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

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

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

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

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

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

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

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

New Capital Rules

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

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

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

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

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

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

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

Prompt Corrective Action

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

An institution is deemed to be:

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

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

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

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

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

Throughout 2015, the Bank's regulatory capital ratios were in excess of the levels established for well-capitalized institutions.

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

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

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

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is well-capitalized and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had \$5,000,000 of such brokered deposits at December 31, 2016.

Interstate Banking and Branching Legislation

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

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

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

FDIC Insurance

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

In addition, all institutions with deposits insured by the FDIC must pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle for the Federal Savings & Loan Insurance Corporation. The annualized assessment rate for the first quarter of fiscal 2017 is .60% of the assessment base and is adjusted quarterly. These assessments will continue until the bonds mature in 2019.

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

Affiliate Transactions

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

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

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

The Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving bank holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2016, the Bank had a satisfactory rating under CRA.

Patriot Act

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

Consumer Privacy and Other Consumer Protection Laws

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

provide notice to customers regarding privacy policies and practices;

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

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

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

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

Incentive Compensation

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

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

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

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Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 is applicable to all companies with equity or debt securities registered under the Exchange Act. In particular, the Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) certification and related responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

Effect of Governmental Policies

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

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

Other Proposals

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

Summary

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

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SUPPLEMENTAL STATISTICAL INFORMATION

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

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

Net Interest Income, the difference between Interest Income and Interest Expense, is the most significant component of the Company's earnings. For interest analytical purposes, Management adjusts Net Interest Income to a taxable equivalent basis using a Federal Income Tax rate of 34% in 2016, 2015 and 2014 on tax-exempt items (primarily interest on municipal securities).

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

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

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

Credit Risk Management and Loan Loss Experience

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

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

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

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

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

Further information concerning the provision for loan losses and the allowance for loan losses is presented in Management's Discussion and Analysis in Item 7 of this Annual Report on Form 10-K and in Note A - Business and Summary of Significant Accounting Policies to the 2016 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 2012-2016 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 did not pay a dividend during the years ended December 31, 2016 and 2015. The Company's dividend payout ratio for the year ended December 31, 2014, was (5%) as a dividend was paid in June 2014 when the Company recorded net income. However, the Company recorded a net loss for the year ended December 31, 2014.

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SCHEDULE I-A

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

| For the Years Ended December 31, | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|
| ASSETS: | | | |
| Cash and due from banks | \$ 39,580 | \$ 32,252 | \$ 29,412 |
| Available for sale securities: | | | |
| Taxable securities | 188,512 | 184,458 | 225,742 |
| Non-taxable securities | 20,902 | 27,744 | 34,360 |
| Other securities | 1,732 | 2,466 | 4,065 |
| Held to maturity securities: | | | |
| Taxable securities | 8,562 | 452 | |
| Non-taxable securities | 19,596 | 17,645 | 13,696 |
| Other investments | 2,693 | 2,744 | 2,962 |
| Net loans (2) | 320,383 | 347,014 | 353,216 |
| Balances due from depository institutions | 31,559 | 11,221 | 7,305 |
| Other assets | 53,077 | 56,279 | 62,847 |
| TOTAL ASSETS | \$ 686,596 | \$ 682,275 | \$ 733,605 |
| LIABILITIES AND SHAREHOLDERS EQUITY: | | | |
| Non-interest bearing deposits | \$ 129,788 | \$ 119,046 | \$ 108,786 |
| Interest bearing deposits | 437,445 | 424,704 | 447,670 |
| Total deposits | 567,233 | 543,750 | 556,456 |
| Other liabilities | 26,554 | 44,570 | 74,691 |
| Total liabilities | 593,787 | 588,320 | 631,147 |
| Shareholders equity | 92,809 | 93,955 | 102,458 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 686,596 | \$ 682,275 | \$ 733,605 |

(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, | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|
| INTEREST EARNING ASSETS: | | | |
| Loans (2) | \$ 327,819 | \$ 356,294 | \$ 362,649 |
| Balances due from depository institutions | 31,559 | 11,221 | 7,305 |
| Available for sale securities: | | | |
| Taxable securities | 188,512 | 184,458 | 225,742 |
| Non-taxable securities | 20,902 | 27,744 | 34,360 |
| Other securities | 1,732 | 2,466 | 4,065 |
| Held to maturity securities: | | | |
| Taxable securities | 8,562 | 452 | |
| Non-taxable securities | 19,596 | 17,645 | 13,696 |
| TOTAL INTEREST EARNING ASSETS | \$ 598,682 | \$ 600,280 | \$ 647,817 |
| INTEREST BEARING LIABILITIES: | | | |
| Savings and negotiable interest bearing deposits | \$ 359,801 | \$ 349,782 | \$ 358,106 |
| Time deposits | 77,644 | 74,923 | 89,564 |
| Other borrowed funds | 8,240 | 25,519 | 56,849 |
| TOTAL INTEREST BEARING LIABILITIES | \$ 445,685 | \$ 450,224 | \$ 504,519 |

(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, | 2016 | 2015 | 2014 |
|--|------------------|------------------|------------------|
| INTEREST EARNED ON: | | | |
| Loans | \$ 14,232 | \$ 14,759 | \$ 16,055 |
| Balances due from depository institutions | 278 | 63 | 21 |
| Available for sale securities: | | | |
| Taxable securities | 2,558 | 3,178 | 4,502 |
| Non-taxable securities | 1,123 | 1,338 | 1,889 |
| Other securities | 22 | 22 | 18 |
| Held to maturity securities: | | | |
| Taxable securities | 184 | 9 | |
| Non-taxable securities | 725 | 600 | 474 |
| TOTAL INTEREST EARNED (1) | \$ 19,122 | \$ 19,969 | \$ 22,959 |
| INTEREST PAID ON: | | | |
| Savings and negotiable interest bearing deposits | \$ 437 | \$ 306 | \$ 274 |
| Time deposits | 457 | 371 | 937 |
| Other borrowed funds | 131 | 198 | 230 |
| TOTAL INTEREST PAID | \$ 1,025 | \$ 875 | \$ 1,441 |

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2016, 2015 and 2014. See disclosure of non-GAAP financial measures on pages 48 and 49.

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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, | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|
| AVERAGE RATE EARNED ON: | | | |
| Loans | 4.34% | 4.14% | 4.43% |
| Balances due from depository institutions | .88% | .56% | .29% |
| Available for sale securities: | | | |
| Taxable securities | 1.36% | 1.72% | 1.99% |
| Non-taxable securities | 5.37% | 4.82% | 5.50% |
| Other securities | 1.27% | .89% | .44% |
| Held to maturity securities: | | | |
| Taxable securities | 2.15% | 1.99% | |
| Non-taxable securities | 3.70% | 3.40% | 3.46% |
| TOTAL (weighted average rate)(1) | 3.19% | 3.33% | 3.54% |
| AVERAGE RATE PAID ON: | | | |
| Savings and negotiable interest bearing deposits | .12% | .09% | .08% |
| Time deposits | .59% | .50% | 1.05% |
| Other borrowed funds | 1.59% | .78% | .40% |
| TOTAL (weighted average rate) | .23% | .19% | .29% |

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2016, 2015 and 2014. See disclosure of non-GAAP financial measures on pages 48 and 49.

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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, | 2016 | 2015 | 2014 |
|--------------------------------------|-----------|-----------|-----------|
| Total interest income (1) | \$ 19,122 | \$ 19,969 | \$ 22,959 |
| Total interest expense | 1,025 | 875 | 1,441 |
| Net interest earnings | \$ 18,097 | \$ 19,094 | \$ 21,518 |
| Net yield on interest earning assets | 3.02% | 3.18% | 3.32% |

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2016, 2015 and 2014. See disclosure of non-GAAP financial measures on pages 48 and 49.

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SCHEDULE I-F

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

| For the Years Ended December 31, | 2016 | 2015 | Increase (Decrease) | Volume | Rate | Rate/Volume |
|--|------------------|------------------|------------------------|-------------------|---------------|-----------------|
| INTEREST EARNED ON: | | | | | | |
| Loans (1)(2) | \$ 14,232 | \$ 14,759 | \$ (527) | \$ (1,180) | \$ 709 | \$ (56) |
| Balances due from depository institutions | 278 | 63 | 215 | 114 | 35 | 66 |
| Available for sale securities: | | | | | | |
| Taxable securities | 2,558 | 3,178 | (620) | 70 | (675) | (15) |
| Non-taxable securities | 1,123 | 1,338 | (215) | (330) | 153 | (38) |
| Other securities | 22 | 22 | | (7) | 9 | (2) |
| Held to maturity securities: | | | | | | |
| Taxable securities | 184 | 9 | 175 | 161 | 1 | 13 |
| Non-taxable securities | 725 | 600 | 125 | 66 | 53 | 6 |
| TOTAL INTEREST EARNED (3) | \$ 19,122 | \$ 19,969 | \$ (847) | \$ (1,106) | \$ 285 | \$ (26) |
| INTEREST PAID ON: | | | | | | |
| Savings and negotiable interest bearing deposits | \$ 437 | \$ 306 | \$ 131 | \$ 9 | \$ 119 | \$ 3 |
| Time deposits | 457 | 371 | 86 | 13 | 70 | 3 |
| Other borrowed funds | 131 | 198 | (67) | (134) | 207 | (140) |
| TOTAL INTEREST PAID | \$ 1,025 | \$ 875 | \$ 150 | \$ (112) | \$ 396 | \$ (134) |

(1) Loan fees of \$389 and \$333 for 2016 and 2015, 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 2016 and 2015. See disclosure of non-GAAP financial measures on pages 48 and 49.

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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, | 2015 | 2014 | Increase (Decrease) | Volume | Rate | Rate/Volume |
|--|------------------|------------------|------------------------|-------------------|-------------------|----------------|
| INTEREST EARNED ON: | | | | | | |
| Loans (1)(2) | \$ 14,759 | \$ 16,055 | \$ (1,296) | \$ (281) | \$ (1,033) | \$ 18 |
| Balances due from depository institutions | 63 | 21 | 42 | 11 | 20 | 11 |
| Available for sale securities: | | | | | | |
| Taxable securities | 3,178 | 4,502 | (1,324) | (823) | (613) | 112 |
| Non-taxable securities | 1,338 | 1,889 | (551) | (364) | (232) | 45 |
| Other securities | 22 | 18 | 4 | (7) | 18 | (7) |
| Held to maturity securities: | | | | | | |
| Taxable securities | 9 | | 9 | 9 | | |
| Non-taxable securities | 600 | 474 | 126 | 152 | (20) | (6) |
| TOTAL INTEREST EARNED (3) | \$ 19,969 | \$ 22,959 | \$ (2,990) | \$ (1,303) | \$ (1,860) | \$ 173 |
| INTEREST PAID ON: | | | | | | |
| Savings and negotiable interest bearing deposits | \$ 306 | \$ 274 | \$ 32 | \$ (6) | \$ 39 | \$ (1) |
| Time deposits | 371 | 937 | (566) | (153) | (493) | 80 |
| Other borrowed funds | 198 | 230 | (32) | (127) | 211 | (116) |
| TOTAL INTEREST PAID | \$ 875 | \$ 1,441 | \$ (566) | \$ (286) | \$ (243) | \$ (37) |

(1) Loan fees of \$333 and \$557 for 2015 and 2014, 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 2015 and 2014. See disclosure of non-GAAP financial measures on pages 48 and 49.

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SCHEDULE II-A

Book Value of Securities Portfolio

(In thousands)

| December 31, | 2016 | 2015 | 2014 |
|---|-------------------|-------------------|-------------------|
| Available for sale securities: | | | |
| U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities | \$ 215,157 | \$ 178,430 | \$ 183,460 |
| States and political subdivisions | 17,963 | 23,727 | 31,012 |
| Other securities | 458 | 650 | 650 |
| Total | \$ 233,578 | \$ 202,807 | \$ 215,122 |
| Held to maturity securities: | | | |
| U.S. Government Agencies | \$ 10,009 | \$ | \$ |
| States and political subdivisions | 36,677 | 17,507 | 17,784 |
| Corporate bonds | 1,464 | 1,518 | |
| Total | \$ 48,150 | \$ 19,025 | \$ 17,784 |

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SCHEDULE II-B

Maturity Securities Portfolio at December 31, 2016

And Weighted Average Yields of Such Securities

(In thousands, except percentage data)

| December 31, | Within one year | | Maturity After one year but within five years | | After five years but within ten years | | After ten years | |
|--|------------------|--------------|---|--------------|--|--------------|------------------|--------------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Available for sale securities: | | | | | | | | |
| U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities | \$ 29,986 | .75% | \$ 120,756 | 1.26% | \$ 39,180 | 2.01% | \$ 25,235 | 2.44% |
| States and political subdivisions | 3,384 | 3.89% | 10,101 | 3.75% | 4,127 | 3.69% | 351 | 4.20% |
| Other securities | | | | | | | 458 | 2.00% |
| Total | \$ 33,370 | 1.91% | \$ 130,857 | 1.76% | \$ 43,307 | 2.28% | \$ 26,044 | 2.47% |
| Held to maturity securities: | | | | | | | | |
| U.S. Government agencies | \$ | | \$ | | \$ 5,000 | 2.04% | \$ 5,009 | .87% |
| States and political subdivisions | 1,281 | 2.15% | 7,649 | 2.50% | 15,111 | 2.49% | 12,636 | 2.98% |
| Corporate bonds | 1,464 | 2.05% | | | | | | |
| Total | \$ 2,745 | 2.09% | \$ 7,649 | 2.50% | \$ 20,111 | 2.39% | \$ 17,645 | 2.76% |

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, | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|------------|------------|------------|------------|------------|
| Real estate, construction | \$ 32,794 | \$ 36,347 | \$ 44,129 | \$ 64,390 | \$ 79,924 |
| Real estate, mortgage | 226,157 | 243,540 | 266,158 | 259,082 | 298,283 |
| Loans to finance agricultural production | | 30 | 1,230 | 726 | 43 |
| Commercial and industrial | 48,361 | 50,520 | 37,441 | 42,653 | 43,328 |
| Loans to individuals for household, family and other consumer expenditures | 6,264 | 6,548 | 7,538 | 7,139 | 7,933 |
| Obligations of states and political subdivisions | 1,646 | 428 | 5,462 | 1,023 | 1,248 |
| All other loans | 133 | 144 | 449 | 336 | 324 |
| Total | \$ 315,355 | \$ 337,557 | \$ 362,407 | \$ 375,349 | \$ 431,083 |

(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, 2016

(In thousands)

| December 31, | Maturity | | | Total |
|--|------------------|----------------------------------|-------------------|-------------------|
| | One year or less | Over one year through 5 years | Over 5 years | |
| Real estate, construction | \$ 10,804 | \$ 8,154 | \$ 13,836 | \$ 32,794 |
| Real estate, mortgage | 12,426 | 86,235 | 127,496 | 226,157 |
| Commercial and industrial | 26,361 | 19,095 | 2,905 | 48,361 |
| Loans to individuals for household, family and other consumer expenditures | 2,283 | 3,601 | 380 | 6,264 |
| Obligations of states and political subdivisions | 675 | | 971 | 1,646 |
| All other loans | 133 | | | 133 |
| Total | \$ 52,682 | \$ 117,085 | \$ 145,588 | \$ 315,355 |
| Loans with pre-determined interest rates | \$ 26,024 | \$ 89,867 | \$ 62,317 | \$ 178,208 |
| Loans with floating interest rates | 26,658 | 27,218 | 83,271 | 137,147 |
| Total | \$ 52,682 | \$ 117,085 | \$ 145,588 | \$ 315,355 |

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SCHEDULE III-C

Non-Performing Loans (In thousands)

| December 31, | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-----------|-----------|-----------|-----------|-----------|
| Loans accounted for on a nonaccrual basis (1) | \$ 11,854 | \$ 15,186 | \$ 33,298 | \$ 26,171 | \$ 53,891 |

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

| | | | |
|-----|-----|-----|-------|
| 146 | 763 | 651 | 1,445 |
|-----|-----|-----|-------|

(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 2016 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, | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------|------------|------------|------------|------------|
| Average amount of loans outstanding (1)(2) | \$ 327,819 | \$ 356,294 | \$ 362,649 | \$ 405,463 | \$ 430,205 |
| Balance of allowance for loan losses at beginning of period | \$ 8,070 | \$ 9,206 | \$ 8,934 | \$ 8,857 | \$ 8,136 |
| Loans charged-off: | | | | | |
| Commercial, financial and agricultural | 509 | 275 | 4,930 | 499 | 448 |
| Consumer and other | 3,013 | 3,833 | 2,800 | 9,623 | 3,228 |
| Total loans charged-off | 3,522 | 4,108 | 7,730 | 10,122 | 3,676 |
| Recoveries of loans: | | | | | |
| Commercial, financial and agricultural | 62 | 19 | 277 | 126 | 23 |
| Consumer and other | 288 | 371 | 321 | 412 | 110 |
| Total recoveries | 350 | 390 | 598 | 538 | 133 |
| Net loans charged-off | 3,172 | 3,718 | 7,132 | 9,584 | 3,543 |
| Provision for loan losses charged to operating expense | 568 | 2,582 | 7,404 | 9,661 | 4,264 |
| Balance of allowance for loan losses at end of period | \$ 5,466 | \$ 8,070 | \$ 9,206 | \$ 8,934 | \$ 8,857 |
| Ratio of net charge-offs during period to average | 0.97% | 1.04% | 1.97% | 2.36% | 0.82% |

loans outstanding

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

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SCHEDULE IV-B

Allocation of the Allowance for Loan Losses

(In thousands except percentage data)

| December 31, | 2016 | | 2015 | | 2014 | | 2013 | | 2012 | |
|---|----------|------------------------------------|----------|------------------------------------|----------|------------------------------------|----------|------------------------------------|----------|------------------------------------|
| | 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 | \$ 262 | 10 | \$ 778 | 11 | \$ 1,110 | 12 | \$ 1,470 | 17 | \$ 1,167 | 18 |
| Real estate, mortgage | 4,150 | 71 | 5,964 | 70 | 7,182 | 73 | 5,825 | 68 | 5,648 | 69 |
| Loans to finance agricultural production | | | 1 | 1 | 2 | 1 | 1 | | | 1 |
| Commercial and industrial | 850 | 15 | 1,075 | 14 | 587 | 10 | 1,338 | 11 | 1,760 | 9 |
| Loans to individuals for household, family and other consumer expenditures | 200 | 2 | 247 | 2 | 282 | 2 | 289 | 1 | 273 | 1 |
| Obligations of states and political subdivisions | | 1 | | 1 | | 1 | | 1 | | 1 |
| All other loans | 4 | 1 | 5 | 1 | 43 | 1 | 12 | 1 | 9 | 1 |
| Total | \$ 5,466 | 100 | \$ 8,070 | 100 | \$ 9,206 | 100 | \$ 8,934 | 100 | \$ 8,857 | 100 |

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SCHEDULE V

Summary of Average Deposits and Their Yields

(In thousands, except percentage data)

| Years Ended December 31, | 2016 | | 2015 | | 2014 | |
|--|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| | Amount | Rate | Amount | Rate | Amount | Rate |
| Demand deposits in domestic offices | \$ 129,788 | N/A | \$ 119,046 | N/A | \$ 108,786 | N/A |
| Negotiable interest bearing deposits in domestic offices | 300,306 | .14% | 295,238 | .07% | 306,904 | .08% |
| Savings deposits in domestic offices | 59,495 | .05% | 54,543 | .05% | 51,202 | .05% |
| Time deposits in domestic offices | 77,644 | .59% | 74,923 | .50% | 89,564 | 1.05% |
| Total | \$ 567,233 | .36% | \$ 543,750 | .33% | \$ 556,456 | .83% |

Certificates of deposit in amounts of \$100,000 or more by the amount of time remaining until maturity as of December 31, 2016, are as follows (in thousands):

Remaining maturity:

| | |
|---------------------------------|------------------|
| 3 months or less | \$ 15,220 |
| Over 3 months through 6 months | 3,562 |
| Over 6 months through 12 months | 13,976 |
| Over 12 months | 5,892 |
| Total | \$ 38,650 |

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SCHEDULE VI

Short Term Borrowings

(In thousands, except percentage data)

| | 2016 | 2015 | 2014 |
|---|----------|-----------|-----------|
| Balance, December 31, | \$ 5,000 | \$ 10,000 | \$ 30,000 |
| Weighted average interest rate at December 31, | 1.11% | .55% | .08% |
| Maximum outstanding at any month- end during year | \$ 8,383 | \$ 48,634 | \$ 94,965 |
| Average amount outstanding during year | \$ 8,240 | \$ 25,680 | \$ 56,849 |
| Weighted average interest rate | 1.59% | .78% | .40% |

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

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SCHEDULE VII

Interest Sensitivity/Gap Analysis

(In thousands)

| December 31, 2016: | 0 - 3 Months | 4 - 12 Months | 1 - 5 Years | Over 5 Years | Total |
|--------------------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| ASSETS: | | | | | |
| Loans (1) | \$ 134,700 | \$ 24,898 | \$ 86,954 | \$ 56,949 | \$ 303,501 |
| Available for sale securities | 18,370 | 15,001 | 128,893 | 71,314 | 233,578 |
| Held to maturity securities | 390 | 2,355 | 7,649 | 37,756 | 48,150 |
| Totals | \$ 153,460 | \$ 42,254 | \$ 223,496 | \$ 166,019 | \$ 585,229 |
| FUNDING SOURCES: | | | | | |
| Interest bearing deposits | \$ 387,914 | \$ 31,552 | \$ 23,169 | \$ | \$ 442,635 |
| Borrowings from FHLB | 5,016 | 49 | 260 | 932 | 6,257 |
| Totals | \$ 392,930 | \$ 31,601 | \$ 23,429 | \$ 932 | \$ 448,892 |
| REPRICING/MATURITY GAP: | | | | | |
| Period | \$ (239,470) | \$ 10,653 | \$ 200,067 | \$ 165,087 | |
| Cumulative | (239,470) | (228,817) | (28,750) | 136,337 | |
| Cumulative Gap/Total Assets | (34.81%) | (33.26%) | (4.18%) | 19.82% | |

(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 2016 Consolidated Financial Statements in this Annual Report on Form 10-K.

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ITEM 1a - RISK FACTORS

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

RISKS RELATING TO THE COMPANY'S BUSINESS

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

The Company's investment and loan portfolio subject the Company to credit risk. Credit losses are always inherent in the banking business but the continuing challenging economic environment in the Company's trade area presents even more exposure to loss. The Company makes various assumptions and judgments about the collectibility of its loan portfolio and provides an allowance for loan losses based on a number of factors. The Company believes that its current allowance for loan losses is adequate and appropriate. However, if the Company's assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. In the event that our loan customers do not repay their loans according to the terms of the loans, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balances, the Company could experience significant loan losses or increase the provision for loan losses or both, which could have a material adverse effect on its operating results. In fact, these conditions were a significant cause of the net losses experienced by the Company in 2014 and 2015. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

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

A significant portion of the Company's loan portfolio is dependent on real estate. At December 31, 2016, approximately 75% of the Company's loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. Further deterioration in the value of real estate generally or in the Company's trade area specifically could significantly impair the value of the collateral and restrict the ability to sell the collateral upon foreclosure. Furthermore, it is likely that the Company would be required to increase the provision for loan losses. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate value or to increase the allowance for loan losses, the Company's profitability and financial condition could be adversely impacted.

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

The Company has concentrations of loan exposure to the hotel/motel and gaming industries. At December 31, 2016, these exposures were approximately \$40,319,000 and \$31,311,000 or 13% and 10%, respectively, of the total loan portfolio. Economic conditions have negatively impacted tourism, which is one of the major factors for success in these industries. Given the size of these relationships, a significant loss in either of these portfolios could materially and adversely affect the Company's earnings.

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

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

Economic factors could negatively impact the Company's liquidity.

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

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

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

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

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

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Committee, attempted to stabilize the financial markets, reduce the effects of the recession and stimulate the economy. These actions taken by the Federal Reserve continued to impact the Company's earnings in 2015. In December 2015 and December 2016, the Federal Reserve increased the discount rate 25 basis points with the fed funds and prime interest rates increasing as a result. Discount or fed funds rate changes that occur in 2017 may affect the Company's earnings in the current year and/or in the future.

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

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

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

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

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

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

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

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

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

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

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

Tier 1 Capital Ratio. For all banking organizations, including the Bank, the ratio of Tier 1 capital to risk-weighted assets must be at least 6%. The threshold is raised from the current 4%, and the risk-weighting method is changed as mentioned above. To be well capitalized the Tier 1 capital ratio must be at least 8%.

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

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

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

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

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

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

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

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

Securities issued by the Company are not FDIC insured.

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

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

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

The Company's stock price can be volatile.

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

actual or anticipated variations in quarterly results of operations;

recommendations by securities analysts;

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

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

perceptions in the marketplace regarding the Company or its competitors;

new technology used, or services offered, by competitors;

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

failure to integrate acquisitions or realize anticipated benefits from acquisitions;

changes in government regulations; and

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

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

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

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

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

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

ITEM 1b - UNRESOLVED STAFF COMMENTS

None.

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

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

ITEM 3 - LEGAL PROCEEDINGS

Information relating to legal proceedings is included in Note M Contingencies to the 2016 Consolidated Financial Statements which is in Item 8 in this Annual Report on Form 10-K.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

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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, 2016, there were 452 holders of the common stock of the Company and 5,123,186 shares were issued and outstanding. 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 |
|------|---------|----------|----------|--------------------|
| 2016 | 1st | \$ 9.50 | \$ 8.53 | \$ |
| | 2nd | 11.26 | 8.90 | |
| | 3rd | 11.41 | 10.23 | |
| | 4th | 16.40 | 10.50 | |
| 2015 | 1st | \$ 12.44 | \$ 10.00 | \$ |
| | 2nd | 10.99 | 9.21 | |
| | 3rd | 11.15 | 9.31 | |
| | 4th | 9.85 | 8.90 | |

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| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------|------------|-------------|------------|------------|
| Balance Sheet Summary | | | | | |
| Total assets | \$ 688,014 | \$ 641,004 | \$ 668,895 | \$ 762,264 | \$ 804,912 |
| Available for sale securities | 233,578 | 202,807 | 215,122 | 275,440 | 258,875 |
| Held to maturity securities | 48,150 | 19,025 | 17,784 | 11,142 | 7,125 |
| Loans, net of unearned discount | 315,355 | 337,557 | 362,407 | 375,349 | 431,083 |
| Deposits | 575,016 | 512,707 | 392,714 | 428,558 | 475,719 |
| Borrowings from FHLB | 6,257 | 18,409 | 38,708 | 77,684 | 7,912 |
| Shareholders equity | 88,461 | 91,839 | 94,951 | 99,147 | 110,754 |
| Summary of Operations | | | | | |
| Interest income | \$ 18,493 | \$ 19,311 | \$ 22,156 | \$ 24,956 | \$ 24,628 |
| Interest expense | 1,025 | 875 | 1,441 | 1,447 | 2,067 |
| Net interest income | 17,468 | 18,436 | 20,715 | 23,509 | 22,561 |
| Provision for loan losses | 568 | 2,582 | 7,404 | 9,661 | 4,264 |
| Net interest income after provision for loan losses | 16,900 | 15,854 | 13,311 | 13,848 | 18,297 |
| Non-interest income | 6,549 | 6,898 | 8,619 | 9,067 | 9,529 |
| Non-interest expense | 23,204 | 28,106 | 27,208 | 25,654 | 25,277 |
| Income (loss) before taxes | 245 | (5,354) | (5,278) | (2,739) | 2,549 |
| Applicable income taxes | 78 | (762) | 4,726 | (2,201) | (92) |
| Net income (loss) | \$ 167 | \$ (4,592) | \$ (10,004) | \$ (538) | \$ 2,641 |
| Per Share Data | | | | | |
| Basic and diluted earnings per share | \$.03 | (\$.90) | (\$ 1.95) | (\$.10) | \$.51 |
| Dividends per share | | | .10 | | .20 |
| Book value | 17.27 | 17.93 | 18.53 | 19.35 | 21.56 |
| Weighted average number of shares | 5,123,186 | 5,123,186 | 5,123,186 | 5,128,889 | 5,136,918 |
| Selected Ratios | | | | | |
| Return on average assets | 0.02% | (.69%) | (1.38%) | (.07%) | 0.32% |
| Return on average equity | 0.19% | (4.92%) | (10.31%) | (.51%) | 2.40% |
| Primary capital to average assets | 13.99% | 15.06% | 14.38% | 13.64% | 14.71% |
| Risk-based capital ratios: | | | | | |
| Tier 1 | 21.69% | 20.58% | 20.70% | 21.54% | 20.04% |
| Total | 22.94% | 21.83% | 21.95% | 22.79% | 21.29% |

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ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management's discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2016, 2015 and 2014. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

FORWARD-LOOKING INFORMATION

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

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued new accounting standards updates in 2016, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not generally expect that these updates will have a material impact on its financial position or results of operations. However the effect of Accounting Standards Update 2016-13 is still being considered.

CRITICAL ACCOUNTING POLICIES

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

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Investments

Investments which are classified as available for sale are stated at fair value. A decline in the market value of an investment below cost that is deemed to be other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income. The determination of the fair value of securities may require Management to develop estimates and assumptions regarding the amount and timing of cash flows.

Allowance for Loan Losses

The Company's allowance for loan losses (ALL) reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The ALL is established and maintained at an amount sufficient to cover the estimated loss associated with the loan portfolio of the Company as of the date of the financial statements. Credit losses arise not only from credit risk, but also from other risks inherent in the lending process including, but not limited to, collateral risk, operation risk, concentration risk and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the ALL. On a quarterly basis, Management estimates the probable level of losses to determine whether the allowance is adequate to absorb reasonably foreseeable, anticipated losses in the existing portfolio based on our past loan loss experience, known and inherent risk in the portfolio, adverse situations that may affect the borrowers' ability to repay and the estimated value of any underlying collateral and current economic conditions. Management believes that the ALL is adequate and appropriate for all periods presented in these financial statements. If there was a deterioration of any of the factors considered by Management in evaluating the ALL, the estimate of loss would be updated, and additional provisions for loan losses may be required. The analysis divides the portfolio into two segments: a pool analysis of loans based upon a five year average loss history which is updated on a quarterly basis and which may be adjusted by qualitative factors by loan type and a specific reserve analysis for those loans considered impaired under GAAP. All credit relationships with an outstanding balance of \$100,000 or greater that are included in Management's loan watch list are individually reviewed for impairment. All losses are charged to the ALL when the loss actually occurs or when a determination is made that a loss is likely to occur; recoveries are credited to the ALL at the time of receipt.

Other Real Estate

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

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Employee Benefit Plans

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

Income Taxes

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

GAAP Reconciliation and Explanation

This Form 10-K contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include taxable equivalent interest income and taxable equivalent net interest income. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures for the years ended Decembe