

PEOPLES FINANCIAL CORP /MS/  
Form 10-K  
March 15, 2017  
Table of Contents

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

Edgar Filing: PEOPLES FINANCIAL CORP /MS/ - Form 10-K

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.

**Table of Contents**

Peoples Financial Corporation

Form 10-K

Index

**PART I**

Item 1.	<u>DESCRIPTION OF BUSINESS</u>	3
Item 1A.	<u>RISK FACTORS</u>	36
Item 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	42
Item 2.	<u>PROPERTIES</u>	43
Item 3.	<u>LEGAL PROCEEDINGS</u>	43
Item 4.	<u>MINE SAFETY DISCLOSURES</u>	43

**PART II**

Item 5.	<u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	44
Item 6.	<u>SELECTED FINANCIAL DATA</u>	45
Item 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	46
Item 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	60
Item 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	60
Item 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	116
Item 9A.	<u>CONTROLS AND PROCEDURES</u>	116
Item 9B.	<u>OTHER INFORMATION</u>	117

**Part III**

Item 10.	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	117
Item 11.	<u>EXECUTIVE COMPENSATION</u>	117
Item 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	117
Item 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>	118
Item 14.	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	118

**PART IV**

Item 15.	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	118
----------	---	-----

**Table of Contents**

**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.



## Table of Contents

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

## Table of Contents

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

## Miscellaneous

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

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

## Available Information

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

## REGULATION AND SUPERVISION

### General

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

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

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

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

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

**Table of Contents**

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.



## Table of Contents

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.

## Table of Contents

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;

## Table of Contents

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

## Table of Contents

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.

---

**Table of Contents**

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

## Table of Contents

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.

## Table of Contents

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.

## Table of Contents

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;



## Table of Contents

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.

## Table of Contents

### 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.

**Table of Contents**

**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

**Table of Contents**

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.

**Table of Contents**

## SCHEDULE I-A

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

For the Years Ended December 31,	2016	2015	2014
<b>ASSETS:</b>			
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
<b>TOTAL ASSETS</b>	<b>\$ 686,596</b>	<b>\$ 682,275</b>	<b>\$ 733,605</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>			
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
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 686,596</b>	<b>\$ 682,275</b>	<b>\$ 733,605</b>

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

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



**Table of Contents**

## 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
<b>INTEREST EARNING ASSETS:</b>			
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
<b>TOTAL INTEREST EARNING ASSETS</b>	<b>\$ 598,682</b>	<b>\$ 600,280</b>	<b>\$ 647,817</b>
<b>INTEREST BEARING LIABILITIES:</b>			
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
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>\$ 445,685</b>	<b>\$ 450,224</b>	<b>\$ 504,519</b>

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

(2) Net of unearned income. Includes nonaccrual loans

**Table of Contents**

## 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
<b>INTEREST EARNED ON:</b>			
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
<b>TOTAL INTEREST EARNED (1)</b>	<b>\$ 19,122</b>	<b>\$ 19,969</b>	<b>\$ 22,959</b>
<b>INTEREST PAID ON:</b>			
Savings and negotiable interest bearing deposits	\$ 437	\$ 306	\$ 274
Time deposits	457	371	937
Other borrowed funds	131	198	230
<b>TOTAL INTEREST PAID</b>	<b>\$ 1,025</b>	<b>\$ 875</b>	<b>\$ 1,441</b>

(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.



**Table of Contents**

## 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
<b>AVERAGE RATE EARNED ON:</b>			
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%
<b>TOTAL (weighted average rate)(1)</b>	<b>3.19%</b>	<b>3.33%</b>	<b>3.54%</b>
<b>AVERAGE RATE PAID ON:</b>			
Savings and negotiable interest bearing deposits	.12%	.09%	.08%
Time deposits	.59%	.50%	1.05%
Other borrowed funds	1.59%	.78%	.40%
<b>TOTAL (weighted average rate)</b>	<b>.23%</b>	<b>.19%</b>	<b>.29%</b>

(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.

**Table of Contents**

## 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.

**Table of Contents**

## 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
<b>INTEREST EARNED ON:</b>						
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
<b>TOTAL INTEREST EARNED (3)</b>	<b>\$ 19,122</b>	<b>\$ 19,969</b>	<b>\$ (847)</b>	<b>\$ (1,106)</b>	<b>\$ 285</b>	<b>\$ (26)</b>
<b>INTEREST PAID ON:</b>						
Savings and negotiable interest bearing deposits	\$ 437	\$ 306	\$ 131	\$ 9	\$ 119	\$ 3
Time deposits	457	371	86	13	70	3
Other borrowed funds	131	198	(67)	(134)	207	(140)
<b>TOTAL INTEREST PAID</b>	<b>\$ 1,025</b>	<b>\$ 875</b>	<b>\$ 150</b>	<b>\$ (112)</b>	<b>\$ 396</b>	<b>\$ (134)</b>

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

(2) 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.

**Table of Contents**

## 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
<b>INTEREST EARNED ON:</b>						
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)
<b>TOTAL INTEREST EARNED (3)</b>	<b>\$ 19,969</b>	<b>\$ 22,959</b>	<b>\$ (2,990)</b>	<b>\$ (1,303)</b>	<b>\$ (1,860)</b>	<b>\$ 173</b>
<b>INTEREST PAID ON:</b>						
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)
<b>TOTAL INTEREST PAID</b>	<b>\$ 875</b>	<b>\$ 1,441</b>	<b>\$ (566)</b>	<b>\$ (286)</b>	<b>\$ (243)</b>	<b>\$ (37)</b>

(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.

**Table of Contents**

## SCHEDULE II-A

## Book Value of Securities Portfolio

(In thousands)

December 31,	2016	2015	2014
<b>Available for sale securities:</b>			
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
<b>Total</b>	<b>\$ 233,578</b>	<b>\$ 202,807</b>	<b>\$ 215,122</b>
<b>Held to maturity securities:</b>			
U.S. Government Agencies	\$ 10,009	\$	\$
States and political subdivisions	36,677	17,507	17,784
Corporate bonds	1,464	1,518	
<b>Total</b>	<b>\$ 48,150</b>	<b>\$ 19,025</b>	<b>\$ 17,784</b>

**Table of Contents**

## 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
<b>Available for sale securities:</b>								
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%
<b>Total</b>	<b>\$ 33,370</b>	<b>1.91%</b>	<b>\$ 130,857</b>	<b>1.76%</b>	<b>\$ 43,307</b>	<b>2.28%</b>	<b>\$ 26,044</b>	<b>2.47%</b>
<b>Held to maturity securities:</b>								
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%						
<b>Total</b>	<b>\$ 2,745</b>	<b>2.09%</b>	<b>\$ 7,649</b>	<b>2.50%</b>	<b>\$ 20,111</b>	<b>2.39%</b>	<b>\$ 17,645</b>	<b>2.76%</b>

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

**Table of Contents**

## 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.

Table of Contents

## 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
<b>Total</b>	<b>\$ 52,682</b>	<b>\$ 117,085</b>	<b>\$ 145,588</b>	<b>\$ 315,355</b>
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
<b>Total</b>	<b>\$ 52,682</b>	<b>\$ 117,085</b>	<b>\$ 145,588</b>	<b>\$ 315,355</b>



**Table of Contents**

## 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.

**Table of Contents**

## 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.

31

Table of Contents

## 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

**Table of Contents**

## 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%
<b>Total</b>	<b>\$ 567,233</b>	<b>.36%</b>	<b>\$ 543,750</b>	<b>.33%</b>	<b>\$ 556,456</b>	<b>.83%</b>

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
<b>Total</b>	<b>\$ 38,650</b>

Table of Contents

## 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.

Table of Contents

## SCHEDULE VII

## Interest Sensitivity/Gap Analysis

(In thousands)

December 31, 2016:	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
<b>ASSETS:</b>					
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
<b>Totals</b>	<b>\$ 153,460</b>	<b>\$ 42,254</b>	<b>\$ 223,496</b>	<b>\$ 166,019</b>	<b>\$ 585,229</b>
<b>FUNDING SOURCES:</b>					
Interest bearing deposits	\$ 387,914	\$ 31,552	\$ 23,169	\$	\$ 442,635
Borrowings from FHLB	5,016	49	260	932	6,257
<b>Totals</b>	<b>\$ 392,930</b>	<b>\$ 31,601</b>	<b>\$ 23,429</b>	<b>\$ 932</b>	<b>\$ 448,892</b>
<b>REPRICING/MATURITY GAP:</b>					
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.





---

**Table of Contents**

**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.

**Table of Contents**

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

---

**Table of Contents**

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.

---

**Table of Contents**

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%.



**Table of Contents**

*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.

**Table of Contents**

**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.



## Table of Contents

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.

**Table of Contents**

**ITEM 2 - PROPERTIES**

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

Bay St. Louis Office	408 Highway 90 East, Bay St. Louis, MS 39520
Cedar Lake Office	1740 Poppas 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.

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

Dividends to the Company's shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. The Company and the bank subsidiary may not declare or pay any cash dividends without prior written approval of their regulators.

At December 31, 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	

**Table of Contents****ITEM 6 - SELECTED FINANCIAL DATA (In thousands except per share data)**

	2016	2015	2014	2013	2012
<b>Balance Sheet Summary</b>					
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
<b>Summary of Operations</b>					
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
<b>Per Share Data</b>					
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
<b>Selected Ratios</b>					
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%
<b>Risk-based capital ratios:</b>					
Tier 1	21.69%	20.58%	20.70%	21.54%	20.04%
Total	22.94%	21.83%	21.95%	22.79%	21.29%



**Table of Contents**

**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.

## **Table of Contents**

### **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.

## **Table of Contents**

### **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 December 31, 2016, 2015 and 2014 is included in the table on the following page.



**Table of Contents**

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

For the Years Ended December 31,	2016	2015	2014
Interest income reconciliation:			
Interest income - taxable equivalent	\$ 19,122	\$ 19,969	\$ 22,959
Taxable equivalent adjustment	(629)	(658)	(803)
Interest income (GAAP)	\$ 18,493	\$ 19,311	\$ 22,156
Net interest income reconciliation:			
Net interest income - taxable equivalent	\$ 18,097	\$ 19,094	\$ 21,518
Taxable equivalent adjustment	(629)	(658)	(803)
Net interest income (GAAP)	\$ 17,468	\$ 18,436	\$ 20,715

**OVERVIEW**

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

The Company recorded net income of \$167,000 for 2016 compared with a net loss of \$4,592,000 for 2015 and a net loss of \$10,004,000 for 2014. Results in 2016 included a decrease in net interest income and non-interest income, which were offset by a decrease in the provision for the allowance for loan losses and non-interest expense, as compared with 2015. Results in 2015 were primarily impacted by a decrease in net interest income and non-interest income and an increase in non-interest expense, which were partially offset by a decrease in the provision for the allowance for loan losses and income tax expense, as compared with 2014.

Managing the net interest margin in the Company's highly competitive market continues to be very challenging. Net interest income was impacted primarily by the decrease in interest income on loans of \$527,000 and the decrease in interest income on taxable available for sale securities of \$573,000 for 2016 as compared with 2015. The decrease in interest income on loans was primarily the result of the decrease in average loans as principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeded new loans. The decrease in interest income on taxable available for sales securities is the result of shorter durations, and therefore lower yields, on new investments, in anticipation of rising rates as well as proceeds from calls and maturities of U.S. Agency securities being invested in U.S. Treasury securities which generally have a lower rate.



**Table of Contents**

Net interest income was impacted primarily by the decrease in interest income on loans of \$1,296,000 and the decrease in interest income on taxable available for sale securities of \$1,324,000 for 2015 as compared with 2014. The decrease in interest income on loans was primarily the result of a loan with an original balance of \$20,000,000 on which the contractual rate is below the weighted average rate of other loans, which decreased the yield on average loans. The decrease in interest income on taxable available for sales securities is the result of shorter durations, and therefore lower yields, on new investments, in anticipation of rising rates.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized as the local economy has negatively impacted collateral values and borrowers' ability to repay their loans. The Company's nonaccrual loans totaled \$11,854,000, \$15,186,000 and \$33,298,000 at December 31, 2016, 2015 and 2014, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. The Company is working diligently to address and reduce its non-performing assets, and some stability in collateral values has occurred. The provision for the allowance for loan losses was \$568,000, \$2,582,000 and \$7,404,000 for 2016, 2015 and 2014, respectively.

Non-interest income decreased \$349,000 for 2016 as compared with 2015 results and \$1,721,000 for 2015 as compared with 2014 results. Service charges on deposit accounts decreased \$500,000 for 2016 as compared with 2015 and decreased \$1,637,000 for 2015 as compared with 2014 primarily as a result of decreased ATM fee income.

Non-interest expense decreased \$4,902,000 for 2016 as compared with 2015 and increased \$898,000 for 2015 as compared with 2014. The decrease for 2016 was the result of the decrease in salaries and employee benefits of \$628,000, ORE expenses of \$1,396,000 and ATM expenses of \$628,000 as compared with 2015. There were not an impairment in 2016 but results for 2015 were impacted by a write-down of \$1,695,000 from the credit impairment of a municipal security. The increase for 2015 was also the result of the increase in ORE expenses of \$654,000, partially offset by decreases in salaries and employee benefits of \$309,000 and ATM expenses of \$1,226,000 as compared with 2014.

The Company recorded income tax expense of \$78,000 for 2016 relating to the resolution of a recent examination by the Internal Revenue Service and an income tax benefit of \$762,000 for 2015 relating to change in the valuation allowance. The Company recorded income tax expense of \$4,726,000 for 2014 as a result of establishing a valuation allowance of \$8,140,000 based on an evaluation of the Company's deferred tax assets in 2014.

---

**Table of Contents**

**RESULTS OF OPERATIONS**

**Net Interest Income**

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

**2016 as compared with 2015**

The Company's average interest-earning assets decreased approximately \$1,598,000, or .27%, from approximately \$600,280,000 for 2015 to approximately \$598,682,000 for 2016. Average balances due from depository institutions increased approximately \$20,338,000 primarily as a result of the decrease in average loans of approximately \$28,475,000 due to principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeding new loans. The average yield on interest-earning assets was 3.33% for 2015 compared with 3.19% for 2016. The yield on average loans increased from 4.14% for 2015 to 4.34% as a result of the increase in prime rate during 2015 and 2016. This increase was offset by the yield on taxable available for sale securities, which decreased from 1.72% for 2015 to 1.36% for 2016 as recent investment purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately \$4,539,000, or 1%, from approximately \$450,224,000 for 2015 to approximately \$445,685,000 for 2016. Average borrowings from the Federal Home Loan Bank ( FHLB ) decreased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 4 basis points, from .19% for 2015 to .23% for 2016.

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

**2015 as compared with 2014**

The Company's average interest-earning assets decreased approximately \$47,537,000, or 7%, from approximately \$647,817,000 for 2014 to approximately \$600,280,000 for 2015. The Company's average balance sheet decreased primarily as decreased public funds enabled us to reduce our investment in securities. The average yield on interest-earning assets was 3.54% for 2014 compared with 3.33% for 2015. The yield on average loans decreased in 2015 as compared with 2014 as discussed in the Overview. The yield on taxable available for sale securities decreased from 1.99% for 2014 to 1.72% for 2015 as recent investment purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately \$54,295,000, or 11%, from approximately \$504,519,000 for 2014 to approximately \$450,224,000 for 2015. Average

**Table of Contents**

borrowings from the FHLB decreased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 10 basis points, from .29% for 2014 to .19% for 2015. This decrease was due to an immaterial interest expense adjustment on time deposits in 2014.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.32% for 2014 as compared with 3.18% for 2015.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2016, 2015 and 2014.

**Table of Contents**

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

(In Thousands)

	2016			2015			2014	
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid
(2)	\$ 327,819	\$ 14,232	4.34%	\$ 356,294	\$ 14,759	4.14%	\$ 362,649	\$ 16,055
due								
y s	31,559	278	0.88%	11,221	63	0.56%	7,305	21
	8,562	184	2.15%	452	9	1.99%		
le	19,596	725	3.70%	17,645	600	3.40%	13,696	474
for								
	188,512	2,558	1.36%	184,458	3,178	1.72%	225,742	4,502
le	20,902	1,123	5.37%	27,744	1,338	4.82%	34,360	1,889
	1,732	22	1.27%	2,466	22	0.89%	4,065	18
	\$ 598,682	\$ 19,122	3.19%	\$ 600,280	\$ 19,969	3.33%	\$ 647,817	\$ 22,959
nd								
DA	\$ 359,801	\$ 437	0.12%	\$ 349,782	\$ 306	0.09%	\$ 358,106	\$ 274
osits	77,644	457	0.59%	74,923	371	0.50%	89,564	937
gs LB	8,240	131	1.59%	25,519	198	0.78%	56,849	230
	\$ 445,685	\$ 1,025	0.23%	\$ 450,224	\$ 875	0.19%	\$ 504,519	\$ 1,441
alent			2.97%			3.14%		

alent  
n  
ssets

3.02%

3.18%

- (1) Loan fees of \$389, \$333 and \$557 for 2016, 2015 and 2014, respectively, are included in these figures.
- (2) Includes nonaccrual loans.
- (3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2016, 2015 and 2014. See disclosure of non-GAAP financial measures on pages 48 and 49.

**Table of Contents**

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

	For the Year Ended				
	December 31, 2016		Compared With December 31, 2015		Total
	Volume	Rate	Rate/Volume		
<b>Interest earned on:</b>					
Loans	\$ (1,180)	\$ 709	\$ (56)	\$ (527)	
Balances due from depository institutions	114	35	66	215	
<b>Held to maturity securities:</b>					
Taxable	161	1	13	175	
Non taxable	66	53	6	125	
<b>Available for sale securities:</b>					
Taxable	70	(675)	(15)	(620)	
Non taxable	(330)	153	(38)	(215)	
Other	(7)	9	(2)		
<b>Total</b>	<b>\$ (1,106)</b>	<b>\$ 285</b>	<b>\$ (26)</b>	<b>\$ (847)</b>	
<b>Interest paid on:</b>					
<b>Savings and interest-bearing</b>					
DDA	\$ 9	\$ 119	\$ 3	\$ 131	
Time deposits	13	70	3	86	
Borrowings from FHLB	(134)	207	(140)	(67)	
<b>Total</b>	<b>\$ (112)</b>	<b>\$ 396</b>	<b>\$ (134)</b>	<b>\$ 150</b>	



**Table of Contents**

For the Year Ended

	December 31, 2015 Compared With December 31, 2014			
	Volume	Rate	Rate/Volume	Total
<b>Interest earned on:</b>				
Loans	\$ (281)	\$ (1,033)	\$ 18	\$ (1,296)
Balances due from depository institutions	11	20	11	42
<b>Held to maturity securities:</b>				
Taxable	9			9
Non taxable	152	(20)	(6)	126
<b>Available for sale securities:</b>				
Taxable	(823)	(613)	112	(1,324)
Non taxable	(364)	(232)	45	(551)
Other	(7)	18	(7)	4
<b>Total</b>	<b>\$ (1,303)</b>	<b>\$ (1,860)</b>	<b>\$ 173</b>	<b>\$ (2,990)</b>
<b>Interest paid on:</b>				
<b>Savings and interest-bearing</b>				
DDA	\$ (6)	\$ 39	\$ (1)	\$ 32
Time deposits	(153)	(493)	80	(566)
Borrowings from FHLB	(127)	211	(116)	(32)
<b>Total</b>	<b>\$ (286)</b>	<b>\$ (243)</b>	<b>\$ (37)</b>	<b>\$ (566)</b>

**Provision for Allowance for Loan Losses**

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



**Table of Contents**

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

The Company's analysis includes evaluating the current value of collateral securing all nonaccrual loans. Nonaccrual loans totaled \$11,854,000, \$15,186,000 and \$33,298,000 with specific reserves on these loans of \$303,000, \$1,697,000 and \$2,507,000 as of December 31, 2016, 2015 and 2014, respectively. The specific reserves allocated to nonaccrual loans are relatively low as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value.

The Company's on-going, systematic evaluation resulted in the Company recording a total provision for the allowance for loan losses of \$568,000, \$2,582,000 and \$7,404,000 in 2016, 2015 and 2014, respectively. As a result of receiving new information and updated appraisals on several collateral-dependent loans, the Company increased its provision for loan losses during the fourth quarter of 2016 and for all of 2015 and 2014. The new appraisals caused Management to update the evaluation of these loans and increase the loan loss provision significantly for several non-performing loans in its residential development and commercial real estate segments during these years. The allowance for loan losses as a percentage of loans was 1.73%, 2.39% and 2.54% at December 31, 2016, 2015 and 2014, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2016.

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

## **Table of Contents**

### **Non-interest Income**

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

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

#### **2015 as compared with 2014**

Total non-interest income decreased \$1,721,000 in 2015 as compared with 2014. Trust department income and fees increased \$179,000 as a result of the increase in market value, on which fees are based, of personal trust accounts and an increase in fees charged. Service charges on deposit accounts decreased \$1,637,000 primarily as a result of decreased ATM fees. ATM fees decreased \$1,386,000 as the Company's off-site ATMs at a casino transferred to another vendor during 2015 which reduced ATM transactions. The Company realized a loss of \$218,000 from operations of its investment in a low income housing partnership in 2015 as compared with a loss from operations of \$64,000 in 2014 as a result of decreased occupancy.

### **Non-interest Expense**

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

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

#### **2015 as compared with 2014**

Total non-interest expense increased \$898,000 in 2015 as compared with 2014. Salaries and employee benefits decreased \$309,000 primarily as a result of decreased salaries and health insurance costs. Salaries decreased \$113,000 due to attrition. Health insurance costs decreased \$150,000 as a result of decreasing claims. Equipment rentals, depreciation and maintenance decreased \$245,000 as 2014 results included additional servicing costs associated with bank-wide hardware and software conversion costs. The Company recorded a loss of \$1,695,000 from the credit impairment of a municipal security during 2015. Other expense decreased \$128,000 for

## **Table of Contents**

2015 as compared with 2014. This decrease was the result of a decrease in ATM expenses and increases in legal and other real estate expenses. ATM expense decreased \$1,226,000 as a result of decreased ATM activity as off-site ATMs at a casino transferred to another vendor. Legal expenses increased \$292,000 primarily as a result of legal fees associated with non-performing loans. Increased write downs of other real estate to fair value and losses on sales of ORE caused these expenses to increase \$654,000 in 2015 as compared with 2014.

## **Income Taxes**

Income taxes have been impacted by non-taxable income and federal tax credits during 2016, 2015 and 2014. The Company recognized an income tax benefit of \$762,000 in 2015, and income tax expense of \$78,000 and \$4,726,000 in 2016 and 2014, respectively. During 2014, Management established a valuation allowance against its net deferred tax asset of approximately \$8,140,000, which caused the expense to increase during this period. As of December 31, 2016, the valuation allowance is still in place. The 2015 benefit was the result of changes in certain components of the Company's deferred tax assets and liabilities. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years and further analysis of the valuation allowance.

## **FINANCIAL CONDITION**

Cash and due from banks increased \$9,720,000 at December 31, 2016, compared with December 31, 2015 in the management of the bank subsidiary's liquidity position.

Available for sale securities increased \$30,771,000 and held to maturity securities increased \$29,125,000 at December 31, 2016 compared with December 31, 2015 as the Company invested some of its excess funding in order to increase interest income.

Loans decreased \$22,202,000 at December 31, 2016 compared with December 31, 2015, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Total deposits increased \$62,309,000 at December 31, 2016, as compared with December 31, 2015. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from year to year are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically.

Borrowings from the FHLB decreased \$12,152,000 at December 31, 2016 as compared with December 31, 2015 based on the liquidity needs of the bank subsidiary.

**Table of Contents**

**SHAREHOLDERS EQUITY AND CAPITAL ADEQUACY**

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

Significant transactions affecting shareholders' equity during 2016 are described in Note J to the Consolidated Financial Statements. The Statement of Changes in Shareholders' Equity also presents all activity in the Company's equity accounts.

**LIQUIDITY**

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

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

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company.

The Company also uses other sources of funds, including borrowings from the FHLB. The Company generally anticipates relying on deposits, purchases of federal funds and borrowings from the FHLB for its liquidity needs in 2017.

**Table of Contents****REGULATORY MATTERS**

During 2016, Management identified opportunities for improving information technology operations and security, risk management and earnings, addressing asset quality concerns, analyzing and assessing the Bank's management and staffing needs, and managing concentrations of credit risk as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company has identified specific corrective steps and actions to enhance its information technology operations and security, risk management, earnings, asset quality and staffing. The Company and the Bank may not declare or pay any cash dividends without the prior written approval of their regulators.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

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

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

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

<u>Consolidated Statements of Condition as of December 31, 2016, 2015 and 2014</u>	61
<u>Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014</u>	63
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2016, 2015 and 2014</u>	65
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014</u>	66
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014</u>	67
<u>Notes to the Consolidated Financial Statements</u>	69
<u>Report of Independent Registered Public Accounting Firm</u>	115

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

<b>December 31,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Cash and due from banks	\$ 41,116	\$ 31,396	\$ 23,556
Available for sale securities	233,578	202,807	215,122
Held to maturity securities, fair value of \$46,935 - 2016; \$19,220 - 2015; \$17,859 - 2014	48,150	19,025	17,784
Other investments	2,693	2,744	2,962
Federal Home Loan Bank Stock, at cost	539	1,637	2,504
<b>Loans</b>	<b>315,355</b>	<b>337,557</b>	<b>362,407</b>
Less: Allowance for loan losses	5,466	8,070	9,206
<b>Loans, net</b>	<b>309,889</b>	<b>329,487</b>	<b>353,201</b>
Bank premises and equipment, net of accumulated depreciation	21,644	22,446	23,784
Other real estate	8,513	9,916	7,646
Accrued interest receivable	1,855	1,832	2,125
Cash surrender value of life insurance	19,249	18,735	18,145
Other assets	788	979	2,066
<b>Total assets</b>	<b>\$ 688,014</b>	<b>\$ 641,004</b>	<b>\$ 668,895</b>



**Table of Contents**

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

<b>December 31,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Liabilities and Shareholders Equity</b>			
<b>Liabilities:</b>			
Deposits:			
Demand, non-interest bearing	\$ 132,381	\$ 122,743	\$ 103,607
Savings and demand, interest bearing	364,975	315,141	336,740
Time, \$100,000 or more	38,650	35,389	35,925
Other time deposits	39,010	39,434	40,648
<b>Total deposits</b>	<b>575,016</b>	<b>512,707</b>	<b>516,920</b>
Borrowings from Federal Home Loan Bank	6,257	18,409	38,708
Employee and director benefit plans liabilities	16,768	16,283	16,957
Other liabilities	1,512	1,766	1,359
<b>Total liabilities</b>	<b>599,553</b>	<b>549,165</b>	<b>573,944</b>
<b>Shareholders Equity:</b>			
Common stock, \$1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2016, 2015 and 2014	5,123	5,123	5,123
Surplus	65,780	65,780	65,780
Undivided profits	19,318	19,151	23,743
Accumulated other comprehensive income (loss), net of tax	(1,760)	1,785	305
<b>Total shareholders equity</b>	<b>88,461</b>	<b>91,839</b>	<b>94,951</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 688,014</b>	<b>\$ 641,004</b>	<b>\$ 668,895</b>

See Notes to Consolidated Financial Statements.

Table of Contents

## Peoples Financial Corporation and Subsidiaries

## Consolidated Statements of Operations

(in thousands except per share data)

Years Ended December 31,	2016	2015	2014
<b>Interest income:</b>			
Interest and fees on loans	\$ 14,232	\$ 14,759	\$ 16,055
<b>Interest and dividends on securities:</b>			
U. S. Treasuries	1,133	626	587
U.S. Government agencies	872	1,956	3,027
Mortgage-backed securities	600	596	888
States and political subdivisions	1,325	1,280	1,560
Other investments	53	31	18
Interest on balances due from depository institutions	278	63	21
<b>Total interest income</b>	<b>18,493</b>	<b>19,311</b>	<b>22,156</b>
<b>Interest expense:</b>			
Deposits	894	677	1,211
Borrowings from Federal Home Loan Bank	131	198	230
<b>Total interest expense</b>	<b>1,025</b>	<b>875</b>	<b>1,441</b>
<b>Net interest income</b>	<b>17,468</b>	<b>18,436</b>	<b>20,715</b>
<b>Provision for allowance for loan losses</b>	<b>568</b>	<b>2,582</b>	<b>7,404</b>
<b>Net interest income after provision for allowance for loan losses</b>	<b>\$ 16,900</b>	<b>\$ 15,854</b>	<b>\$ 13,311</b>



**Table of Contents**

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

Years Ended December 31,	2016	2015	2014
<b>Non-interest income:</b>			
Trust department income and fees	1,614	1,642	1,463
Service charges on deposit accounts	3,763	4,263	5,900
Gain on liquidation, sales and calls of securities	158	8	99
Loss on other investments	(51)	(218)	(64)
Increase in cash surrender value of life insurance	406	489	589
Other income	659	714	632
<b>Total non-interest income</b>	<b>6,549</b>	<b>6,898</b>	<b>8,619</b>
<b>Non-interest expense:</b>			
Salaries and employee benefits	11,088	11,716	12,025
Net occupancy	2,323	2,365	2,480
Equipment rentals, depreciation and maintenance	2,954	2,809	3,054
Loss on credit impairment of securities		1,695	
Other expense	6,839	9,521	9,649
<b>Total non-interest expense</b>	<b>23,204</b>	<b>28,106</b>	<b>27,208</b>
<b>Income (loss) before income taxes</b>	<b>245</b>	<b>(5,354)</b>	<b>(5,278)</b>
Income tax (benefit) expense	78	(762)	4,726
<b>Net income (loss)</b>	<b>\$ 167</b>	<b>\$ (4,592)</b>	<b>\$ (10,004)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ .03</b>	<b>(\$ .90)</b>	<b>(\$1.95)</b>

<b>Dividends declared per share</b>	\$	\$	\$	.10
-------------------------------------	----	----	----	-----

See Notes to Consolidated Financial Statements.

64

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

<b>Years Ended December 31,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Net income (loss)</b>	\$ 167	\$ (4,592)	\$ (10,004)
<b>Other comprehensive income (loss), net of tax:</b>			
Net unrealized gain (loss) on available for sale securities, net of tax of \$390 and \$3,506 for the years ended December 31, 2015 and 2014, respectively	(3,345)	762	6,806
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of \$3 and \$34 for the years ended December 31, 2015 and 2014, respectively	(158)	(5)	(65)
Gain (loss) from unfunded post-retirement benefit obligation, net of tax of \$372 and \$217 for the years ended December 31, 2015 and 2014, respectively	(42)	723	(421)
<b>Total other comprehensive income (loss)</b>	<b>(3,545)</b>	<b>1,480</b>	<b>6,320</b>
<b>Total comprehensive loss</b>	<b>\$ (3,378)</b>	<b>\$ (3,112)</b>	<b>\$ (3,684)</b>

See Notes to Consolidated Financial Statements.

Table of Contents

**Peoples Financial Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(in thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2014</b>	5,123,186	\$ 5,123	\$ 65,780	\$ 34,259	\$ (6,015)	\$ 99,147
Net loss				(10,004)		(10,004)
Other comprehensive income					6,320	6,320
Cash dividend (\$.10 per share)				(512)		(512)
<b>Balance, December 31, 2014</b>	5,123,186	5,123	65,780	23,743	305	94,951
Net loss				(4,592)		(4,592)
Other comprehensive income					1,480	1,480
<b>Balance, December 31, 2015</b>	5,123,186	5,123	65,780	19,151	1,785	91,839
Net income				167		167
Other comprehensive loss					(3,545)	(3,545)
<b>Balance, December 31, 2016</b>	5,123,186	\$ 5,123	\$ 65,780	\$ 19,318	\$ (1,760)	\$ 88,461

See Notes to Consolidated Financial Statements.



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

<b>Years Ended December 31,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
<b>Net income (loss)</b>	\$ 167	\$ (4,592)	\$ (10,004)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,823	1,754	1,817
Provision for allowance for loan losses	568	2,582	7,404
Writedown of other real estate	782	937	1,261
(Gain) loss on sales of other real estate	(251)	789	(47)
Loss on credit impairment of securities		1,695	
Loss on other investments	51	218	64
Amortization of available for sale securities	30	224	250
(Accretion) amortization of held to maturity securities	181	83	(3)
Gain on liquidation, sales and calls of securities	(158)	(8)	(99)
Increase in cash surrender value of life insurance	(406)	(489)	(589)
Change in accrued interest receivable	(23)	293	482
Change in other assets	191	1,087	810
Change in other liabilities	189	66	5,218
<b>Net cash provided by operating activities</b>	<b>\$ 3,144</b>	<b>\$ 4,639</b>	<b>\$ 6,564</b>

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

<b>Years Ended December 31,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from investing activities:</b>			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	\$ 149,715	\$ 56,593	\$ 72,374
Purchases of available for sale securities	(183,861)	(45,042)	(1,995)
Proceeds from maturities of held to maturity securities	510	210	660
Purchases of held to maturity securities	(29,816)	(1,534)	(7,299)
Redemption of Federal Home Loan Bank Stock	1,098	867	1,330
Redemption of other investments			236
Proceeds from sales of other real estate	2,775	3,506	2,115
Loans, net change	17,127	13,630	4,465
Acquisition of premises and equipment	(1,021)	(416)	(293)
Investment in cash surrender value of life insurance	(108)	(101)	(100)
<b>Net cash provided by (used in) investing activities</b>	<b>(43,581)</b>	<b>27,713</b>	<b>71,493</b>
<b>Cash flows from financing activities:</b>			
Demand and savings deposits, net change	59,472	(2,463)	(23,414)
Time deposits, net change	2,837	(1,750)	(27,863)
Cash dividends			(512)
Borrowings from Federal Home Loan Bank	98,920	992,545	2,013,013
Repayments to Federal Home Loan Bank	(111,072)	(1,012,844)	(2,051,989)
<b>Net cash provided by (used in) financing activities</b>	<b>50,157</b>	<b>(24,512)</b>	<b>(90,765)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>9,720</b>	<b>7,840</b>	<b>(12,708)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>31,396</b>	<b>23,556</b>	<b>36,264</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 41,116</b>	<b>\$ 31,396</b>	<b>\$ 23,556</b>

See Notes to Consolidated Financial Statements.



**Table of Contents**

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**Business of The Company**

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

**Principles of Consolidation**

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

**Basis of Accounting**

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

**New Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 82)*. ASU 2016-02 provides certain targeted improvements to align lessor accounting with the lessee accounting model. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

**Table of Contents**

In March 2016, FASB issued ASU 2016-03, *Intangibles – Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*. ASU 2016-03 amends the guidance in ASUs 2014-02, 2014-03, 2014-07 and 2014-18 to remove their effective dates and render them effective immediately. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations and retained earnings retroactively on a step by step basis. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2016. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of determining the effect of ASU 2016-13 on its financial position, results of operations and cash flows.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)*. ASU 2016-15 provides classification guidance in order to reduce diversity in practice for certain transactions. Such transactions include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2017. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

## **Table of Contents**

In October 2016, FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. ASU 2016-16 requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2016, FASB issued ASU 2016-19, *Technical Corrections and Improvements*. ASU 2016-19 includes amendments to provide guidance clarification and references corrections and provide minor structure changes to headings or minor editing to text to improve usefulness and understandability. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2017, FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 clarifies the definition of a business to determine whether a business has been acquired or sold. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application will be permitted for all organizations under certain circumstances. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

## **Cash and Due from Banks**

The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately \$4,240,000, \$2,084,000 and \$417,000 for the years ending December 31, 2016, 2015 and 2014, respectively.

## **Securities**

The classification of securities is determined by Management at the time of purchase. Securities are classified as held to maturity when the Company has the positive intent and ability to hold the security until maturity. Securities held to maturity are stated at amortized cost. Securities not classified as held to maturity are classified as available for sale and are stated at fair value. Unrealized gains and losses, net of tax, on these securities are recorded in shareholders equity as

## **Table of Contents**

accumulated other comprehensive income. The amortized cost of available for sale securities and held to maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, determined using the interest method. Such amortization and accretion is included in interest income on securities. A decline in the market value of any investment below cost that is deemed to be other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income. In estimating other-than-temporary losses, Management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and nature of the issuer, the cause of the decline, especially if related to a change in interest rates, and the intent and ability of the Company to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The specific identification method is used to determine realized gains and losses on sales of securities, which are reported as gain (loss) on sales and calls of securities in non-interest income.

## **Other Investments**

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

## **Federal Home Loan Bank Stock**

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

## **Loans**

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

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

The Company continuously monitors its relationships with its loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area, land development, construction and commercial real estate loans, and their direct and indirect impact

## **Table of Contents**

on its operations. Loan delinquencies and deposit overdrafts are monitored on a weekly basis in order to identify developing problems as early as possible. On a monthly basis, a watch list of credits based on our loan grading system is prepared. Grades are applied to individual loans based on factors including repayment ability, financial condition of the borrower and payment performance. Loans with lower grades are placed on the watch list of credits. The watch list is the primary tool for monitoring the credit quality of the loan portfolio. Once loans are determined to be past due, the loan officer and the special assets department work vigorously to return the loans to a current status.

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

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

### **Allowance for Loan Losses**

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

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



## **Table of Contents**

characteristics of the portfolio, adverse situations that may affect the borrower's ability to repay and the results of regulatory examinations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for the allowance for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2016.

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

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

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

When Management determines that a loan is impaired and the loan is collateral-dependent, an evaluation of the fair value of the collateral is performed. The Company maintains established criteria for assessing whether an existing appraisal continues to reflect the fair value of the property for collateral-dependent loans. Appraisals are generally considered to be valid for a period of at

## **Table of Contents**

least twelve months. However, appraisals that are less than 12 months old may need to be adjusted. Management considers such factors as the property type, property condition, current use of the property, current market conditions and the passage of time when determining the relevance and validity of the most recent appraisal of the property. If Management determines that the most recent appraisal is no longer valid, a new appraisal is ordered from an independent and qualified appraiser.

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

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

## **Bank Premises and Equipment**

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

## **Other Real Estate**

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

## **Table of Contents**

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

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

### **Income Taxes**

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

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

### **Post-Retirement Benefit Plan**

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

### **Earnings Per Share**

Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding of 5,123,186 in 2016, 2015 and 2014.

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

At December 31, 2016, 2015 and 2014, accumulated other comprehensive income (loss) consisted of net unrealized gains (losses) on available for sale securities and over (under) funded liabilities related to the Company's post-retirement benefit plan.

**Table of Contents**

**Statements of Cash Flows**

The Company has defined cash and cash equivalents to include cash and due from banks. The Company paid \$1,020,177, \$874,890 and \$1,447,133 in 2016, 2015 and 2014, respectively, for interest on deposits and borrowings. Income tax payments totaled \$78,435 and \$320,000 in 2016 and 2014, respectively. Loans transferred to other real estate amounted to \$1,903,427, \$7,502,496 and \$1,345,170 in 2016, 2015 and 2014, respectively.

**Fair Value Measurement**

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

**Reclassification**

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

**Table of Contents**

## NOTE B SECURITIES:

The amortized cost and fair value of securities at December 31, 2016, 2015 and 2014, respectively, are as follows (in thousands):

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

**Table of Contents**

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

**Table of Contents**

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

The amortized cost and fair value of debt securities at December 31, 2016, (in thousands) by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Table of Contents**

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	\$ 33,318	\$ 33,371
Due after one year through five years	129,693	128,893
Due after five years through ten years	28,818	27,797
Due after ten years	333	351
Mortgage-backed securities	43,939	42,708
<b>Total</b>	<b>\$ 236,101</b>	<b>\$ 233,120</b>
Held to maturity securities:		
Due in one year or less	\$ 2,745	\$ 2,742
Due after one year through five years	7,649	7,638
Due after five years through ten years	20,111	19,593
Due after ten years	17,645	16,962
<b>Total</b>	<b>\$ 48,150</b>	<b>\$ 46,935</b>



**Table of Contents**

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2016, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016:						
U.S. Treasuries	\$ 97,634	\$ 2,091	\$	\$	\$ 97,634	\$ 2,091
U.S. Government agencies	24,478	521			24,478	521
Mortgage-backed securities	37,663	1,305			37,663	1,305
States and political subdivisions	24,627	926	589	1	25,216	927
Corporate bond			1,462	2	1,462	2
Total	\$ 184,402	\$ 4,843	\$ 2,051	\$ 3	\$ 186,453	\$ 4,846
December 31, 2015:						
U.S. Treasuries	\$ 39,889	\$ 111	\$	\$	\$ 39,889	\$ 111
U.S. Government agencies	14,894	87	12,581	392	27,475	479
Mortgage-backed securities	16,557	131			16,557	131
States and political subdivisions	2,225	8	1,362	8	3,587	16
Corporate bond	1,507	11			1,507	11
Total	\$ 75,072	\$ 348	\$ 13,943	\$ 400	\$ 89,015	\$ 748
December 31, 2014:						
U.S. Treasuries	\$ 4,968	\$ 15	\$ 14,795	\$ 145	\$ 19,763	\$ 160
U.S. Government agencies	9,954	22	92,923	1,909	102,877	1,931
Mortgage-backed securities			19,436	136	19,436	136
States and political subdivisions	5,485	32	1,444	25	6,929	57
Total	\$ 20,407	\$ 69	\$ 128,598	\$ 2,215	\$ 149,005	\$ 2,284



**Table of Contents**

At December 31, 2016, 20 of the 31 securities issued by the U.S. Treasury, 5 of the 7 securities issued by U.S. Government agencies, 16 of the 19 mortgage-backed securities, 59 of the 147 securities issued by states and political subdivisions and the corporate bond contained unrealized losses.

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

As part of its routine evaluation of securities for other-than-temporary impairment, the Company identified a potential credit loss on bonds issued by a municipality with a carrying value of \$1,875,000 during 2015. The Company's evaluation considered the failure of the issuer to make scheduled interest payments and expectations of future performance. Principal and interest payments due under the current terms of the bonds are funded by sales and property tax collections by the related municipality. During the third quarter of 2015, the assessed value of the related real estate parcels was significantly reduced, which will reduce the level of future cash flows supporting the principal and interest payments on the bonds. The present value of the expected future cash flows was calculated by the Company. Based on its evaluation, it was determined that the investment in the bonds was impaired and that a credit loss should be recognized in earnings. During 2015, the Company recorded a loss of \$1,695,000 from the credit impairment of these bonds. Accrued interest of \$92,564 relating to these securities was also charged off during 2015. During 2016, payments totaling \$223,861 were received from the municipality which resulted in the Company recognizing a gain of \$53,861.

Proceeds from sales of available for sale debt securities were \$29,641,206, \$5,007,993 and \$44,279,605 during 2016, 2015 and 2014, respectively. Available for sale debt securities were sold and called for realized gains of \$157,925, \$7,993 and \$98,859 during 2016, 2015 and 2014, respectively.

Securities with a fair value of \$180,659,168, \$168,724,920 and \$200,474,637 at December 31, 2016, 2015 and 2014, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

**Table of Contents**

## NOTE C - LOANS:

The composition of the loan portfolio at December 31, 2016, 2015 and 2014 is as follows (in thousands):

December 31,	2016	2015	2014
Gaming	\$ 31,311	\$ 31,655	\$ 31,353
Residential and land development	291	933	10,119
Real estate, construction	32,503	35,414	34,010
Real estate, mortgage	206,172	219,925	234,713
Commercial and industrial	37,035	42,480	37,534
Other	8,043	7,150	14,678
<b>Total</b>	<b>\$ 315,355</b>	<b>\$ 337,557</b>	<b>\$ 362,407</b>

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

	2016	2015	2014
Balance, January 1	\$ 7,608	\$ 7,760	\$ 6,761
New loans and advances	312	3,958	2,516
Repayments	(1,262)	(4,110)	(1,517)
<b>Balance, December 31</b>	<b>\$ 6,658</b>	<b>\$ 7,608</b>	<b>\$ 7,760</b>

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

December 31,	2016	2015	2014
Gaming	\$ 31,311	\$ 31,655	\$ 31,353
Hotel/motel	40,319	39,460	47,144

Out of area	14,461	14,526	19,179
-------------	--------	--------	--------

**Table of Contents**

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2016, 2015 and 2014 is as follows (in thousands):

	Number of Days Past Due						Loans Past
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Due Greater Than 90 Days and Still Accruing
<b>December 31, 2016:</b>							
Gaming	\$	\$	\$	\$	\$ 31,311	\$ 31,311	\$
Residential and land development			291	291		291	
Real estate, construction	902	216	1,082	2,200	30,303	32,503	
Real estate, mortgage	4,608	1,923	4,471	11,002	195,170	206,172	
Commercial and industrial	867		8	875	36,160	37,035	
Other	44	36	80	160	7,883	8,043	
<b>Total</b>	<b>\$ 6,421</b>	<b>\$ 2,175</b>	<b>\$ 5,932</b>	<b>\$ 14,528</b>	<b>\$ 300,827</b>	<b>\$ 315,355</b>	<b>\$</b>
<b>December 31, 2015:</b>							
Gaming	\$	\$	\$	\$	\$ 31,655	\$ 31,655	\$
Residential and land development			323	323	610	933	
Real estate, construction	851	448	1,346	2,645	32,769	35,414	
Real estate, mortgage	7,094	3,673	1,352	12,119	207,806	219,925	146
Commercial and industrial	1,206	31	237	1,474	41,006	42,480	
Other	67			67	7,083	7,150	
<b>Total</b>	<b>\$ 9,218</b>	<b>\$ 4,152</b>	<b>\$ 3,258</b>	<b>\$ 16,628</b>	<b>\$ 320,929</b>	<b>\$ 337,557</b>	<b>\$ 146</b>

December 31, 2014:														
Gaming	\$	\$	\$	\$	\$	31,353	\$	31,353	\$					
Residential and land development				5,262	5,262	4,857		10,119						
Real estate, construction	1,665	85	1,944	3,694	30,316		34,010	30						
Real estate, mortgage	3,257	3,101	12,007	18,365	216,348		234,713	733						
Commercial and industrial	1,154	7	205	1,366	36,168		37,534							
Other	168	10		178	14,500		14,678							
Total	\$	6,244	\$	3,203	\$	19,418	\$	28,865	\$	333,542	\$	362,407	\$	763

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 - 5 is assigned to the loan based on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A, B, C, S, D, E or F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of

**Table of Contents**

repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. A grade of S will generally be applied to loans for customers who meet the criteria for a grade of C but also warrant additional monitoring by placement on the watch list. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.



**Table of Contents**

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2016, 2015 and 2014 is as follows (in thousands):

	Loans With A Grade Of:						Total
	A, B or C	S	D	E	F		
<b>December 31, 2016:</b>							
Gaming	\$ 31,311	\$	\$	\$	\$	\$	31,311
Residential and land development				291			291
Real estate, construction	29,954	435	517	1,597			32,503
Real estate, mortgage	155,671	17,651	22,901	9,949			206,172
Commercial and industrial	13,926	21,680	867	562			37,035
Other	7,996		42	5			8,043
<b>Total</b>	<b>\$ 238,858</b>	<b>\$ 39,766</b>	<b>\$ 24,327</b>	<b>\$ 12,404</b>	<b>\$</b>	<b>\$</b>	<b>315,355</b>
<b>December 31, 2015:</b>							
Gaming	\$ 31,655	\$	\$	\$	\$	\$	31,655
Residential and land development	610			323			933
Real estate, construction	31,935		883	2,596			35,414
Real estate, mortgage	167,286	16,678	23,686	12,275			219,925
Commercial and industrial	24,466	15,007	2,368	639			42,480
Other	7,114	1	35				7,150
<b>Total</b>	<b>\$ 263,066</b>	<b>\$ 31,686</b>	<b>\$ 26,972</b>	<b>\$ 15,833</b>	<b>\$</b>	<b>\$</b>	<b>337,557</b>
<b>December 31, 2014:</b>							
Gaming	\$ 31,353	\$	\$	\$	\$	\$	31,353

Residential and land development	3,520	1,319	17	5,263	10,119
Real estate, construction	27,474	723	2,496	3,317	34,010
Real estate, mortgage	191,458	4,051	16,591	22,613	234,713
Commercial and industrial	32,505	25	1,579	3,425	37,534
Other	14,583	6	89		14,678
Total	\$ 300,893	\$ 6,124	\$ 20,772	\$ 34,618	\$ 362,407

**Table of Contents**

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

December 31,	2016	2015	2014
Residential and land development	\$ 291	\$ 323	\$ 8,233
Real estate, construction	1,598	2,523	3,287
Real estate, mortgage	9,445	11,759	21,398
Commercial and industrial	515	581	380
Other	5		
Total	\$ 11,854	\$ 15,186	\$ 33,298

Prior to 2014, certain loans were modified by granting interest rate concessions to these customers with such loans being classified as troubled debt restructurings. During 2016, 2015 and 2014, the Company did not restructure any additional loans. Specific reserves of \$100,000, \$107,000 and \$50,000 have been allocated to troubled debt restructurings as of December 31, 2016, 2015, and 2014, respectively. The Bank had no commitments to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings as of December 31, 2016, 2015 and 2014.

**Table of Contents**

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2016, 2015 and 2014 were as follows (in thousands):

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

**Table of Contents**

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

**Table of Contents**

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

**Table of Contents**

Transactions in the allowance for loan losses for the years ended December 31, 2016, 2015 and 2014, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2016:							
Allowance for Loan Losses:							
Beginning							
Balance	\$ 582	\$ 189	\$ 589	\$ 5,382	\$ 1,075	\$ 253	\$ 8,070
Charge-offs			(260)	(2,499)	(509)	(254)	(3,522)
Recoveries			71	107	62	110	350
Provision	(37)	(123)	(201)	810	23	96	568
Ending							
Balance	\$ 545	\$ 66	\$ 199	\$ 3,800	\$ 651	\$ 205	\$ 5,466
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment							
	\$	\$ 66	\$ 141	\$ 424	\$ 214	\$ 15	\$ 860
Ending balance: collectively evaluated for impairment							
	\$ 545	\$	\$ 58	\$ 3,376	\$ 437	\$ 190	\$ 4,606
Total Loans:							
Ending balance: individually							
Ending Balance: Individually	\$	\$ 291	\$ 2,114	\$ 32,850	\$ 1,430	\$ 47	\$ 36,732

evaluated for  
impairment

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

December 31,  
2015:

Allowance  
for Loan

Losses:

Beginning

Balance	\$	573	\$	251	\$	860	\$	6,609	\$	587	\$	326	\$	9,206
Charge-offs				(1,504)		(955)		(1,171)		(275)		(203)		(4,108)
Recoveries						102		190		19		79		390
Provision		9		1,442		582		(246)		744		51		2,582

Ending Balance	\$	582	\$	189	\$	589	\$	5,382	\$	1,075	\$	253	\$	8,070
-------------------	----	-----	----	-----	----	-----	----	-------	----	-------	----	-----	----	-------

Allowance  
for Loan

Losses:

Ending

balance: individually evaluated for impairment	\$		\$	109	\$	484	\$	1,751	\$	614	\$	4	\$	2,962
---	----	--	----	-----	----	-----	----	-------	----	-----	----	---	----	-------

Ending balance: collectively evaluated for impairment	\$	582	\$	80	\$	105	\$	3,631	\$	461	\$	249	\$	5,108
---	----	-----	----	----	----	-----	----	-------	----	-----	----	-----	----	-------

Total Loans:

Ending balance: individually evaluated for impairment	\$		\$	323	\$	3,479	\$	35,961	\$	3,003	\$	35	\$	42,801
---	----	--	----	-----	----	-------	----	--------	----	-------	----	----	----	--------

Ending balance: collectively	\$	31,655	\$	610	\$	31,935	\$	183,964	\$	39,477	\$	7,115	\$	294,756
------------------------------------	----	--------	----	-----	----	--------	----	---------	----	--------	----	-------	----	---------



evaluated for  
impairment

**Table of Contents**

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
<b>December 31, 2014:</b>							
Allowance for Loan Losses:							
Beginning Balance	\$ 977	\$ 776	\$ 695	\$ 5,553	\$ 632	\$ 301	\$ 8,934
Charge-offs	(992)	(2,060)	(127)	(368)	(3,948)	(235)	(7,730)
Recoveries	260		35	193	20	90	598
Provision	328	1,535	257	1,231	3,883	170	7,404
Ending Balance	\$ 573	\$ 251	\$ 860	\$ 6,609	\$ 587	\$ 326	\$ 9,206
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	\$	\$	\$ 742	\$ 2,706	\$ 289	\$ 6	\$ 3,743
Ending balance: collectively evaluated for impairment	\$ 573	\$ 251	\$ 118	\$ 3,903	\$ 298	\$ 320	\$ 5,463
<b>Total Loans:</b>							
Ending balance: individually evaluated for impairment	\$	\$ 7,232	\$ 6,830	\$ 39,204	\$ 2,035	\$ 89	\$ 55,390
Ending balance: collectively evaluated for	\$ 31,353	\$ 2,887	\$ 27,180	\$ 195,509	\$ 35,499	\$ 14,589	\$ 307,017

impairment

## NOTE D - BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2016	2015	2014
Land		\$ 5,792	\$ 5,982	\$ 5,982
Building	5 - 40 years	30,650	30,641	30,593
Furniture, fixtures and equipment	3 - 10 years	16,422	15,879	15,511
Totals, at cost		52,864	52,502	52,086
Less: Accumulated depreciation		31,220	30,056	28,302
Totals		\$ 21,644	\$ 22,446	\$ 23,784

**Table of Contents****NOTE E OTHER REAL ESTATE:**

The Company's other real estate consisted of the following as of December 31, 2016, 2015 and 2014, respectively (in thousands except number of properties):

December 31,	2016		2015		2014	
	Number of	Balance	Number of	Balance	Number of	Balance
	Properties		Properties		Properties	
Construction, land development and other land	19	\$ 7,658	19	\$ 8,792	15	\$ 5,034
1 - 4 family residential properties	3	202	3	368	10	431
Nonfarm nonresidential	3	653	4	756	14	2,030
Other					1	151
<b>Total</b>	<b>25</b>	<b>\$ 8,513</b>	<b>26</b>	<b>\$ 9,916</b>	<b>40</b>	<b>\$ 7,646</b>

**NOTE F- DEPOSITS:**

At December 31, 2016, the scheduled maturities of time deposits are as follows (in thousands):

2017	\$ 54,491
2018	17,645
2019	2,942
2020	1,549
2021	1,033
<b>Total</b>	<b>\$77,660</b>

Time deposits of \$100,000 or more at December 31, 2016 included brokered deposits of \$5,000,000, which mature in 2017.

Time deposits of \$250,000 or more totaled approximately \$25,143,000, \$24,090,000 and \$25,321,000 at December 31, 2016, 2015 and 2014, respectively.

Deposits held for related parties amounted to \$17,713,230, \$7,640,079 and \$6,607,646 at December 31, 2016, 2015 and 2014, respectively.

Overdrafts totaling \$800,557, \$663,511 and \$822,730 were reclassified as loans at December 31, 2016, 2015 and 2014, respectively.

NOTE G FEDERAL FUNDS PURCHASED:

At December 31, 2016, the Company had facilities in place to purchase federal funds up to \$40,000,000 under established credit arrangements.

**Table of Contents****NOTE H - BORROWINGS:**

At December 31, 2016, the Company was able to borrow up to \$31,367,467 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank's portfolio serving as collateral. Borrowings bear interest at 25 basis points over the current fed funds rate and have a maturity of one day. There was no outstanding balance at December 31, 2016.

At December 31, 2016, the Company had \$6,256,591 outstanding in advances under a \$33,170,021 line of credit with the FHLB. One advance in the amount of \$5,000,000 bears interest at a variable rate of 43.2 basis points above the 1 month LIBOR rate, which was 1.112% at December 31, 2016, and matures in 2017. New advances may subsequently be obtained based on the liquidity needs of the bank subsidiary. The remaining balance consists of smaller advances bearing interest from 2.604% to 7.00% with maturity dates from 2030 to 2040. The advances are collateralized by specific loans, for which certain documents are held in custody by the FHLB, and, if needed, specific investment securities that are held in safekeeping at the FHLB.

**NOTE I - INCOME TAXES:**

Deferred taxes (or deferred charges) as of December 31, 2016, 2015 and 2014, included in other assets, were as follows (in thousands):

December 31,	2016	2015	2014
<b>Deferred tax assets:</b>			
Allowance for loan losses	\$ 1,858	\$ 2,744	\$ 3,130
Employee benefit plans liabilities	4,784	4,633	4,490
Unrealized loss on available for sale securities, charged from equity	1,013		210
Loss on credit impairment of securities	576	576	
Earned retiree health benefits plan liability	1,638	1,638	1,638
General business and AMT credits	1,605	2,011	1,735
Tax net operating loss carryforward	3,423	2,514	651
Other	1,731	1,535	1,637
Valuation allowance	(11,560)	(10,106)	(8,140)
<b>Deferred tax assets</b>	<b>5,068</b>	<b>5,545</b>	<b>5,351</b>
<b>Deferred tax liabilities:</b>			
Unrealized gain on available for sale securities, charged to equity		180	
Unearned retiree health benefits plan asset	720	734	362
Bank premises and equipment	4,011	4,369	4,760
Other	337	262	229
<b>Deferred tax liabilities</b>	<b>5,068</b>	<b>5,545</b>	<b>5,351</b>
<b>Net deferred taxes</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>



**Table of Contents**

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

Years Ended December 31,	2016		2015		2014	
Current	\$	78	\$		\$	(137)
Deferred:						
Federal		(247)		(2,728)		(3,277)
Change in valuation allowance		247		1,966		8,140
Total deferred				(762)		4,863
Totals	\$	78	\$	(762)	\$	4,726

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2016, 2015 and 2014 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2016		2015		2014	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	\$ 83	34	\$ (1,820)	(34)	\$ (1,794)	(34)
Increase (decrease) resulting from:						
Tax-exempt interest income	(417)	(170)	(447)	(8)	(532)	(10)
Income from BOLI	(144)	(59)	(166)	(3)	(200)	(4)
Federal tax credits	(298)	(121)	(298)	(6)	(298)	(6)
Other	607	247	3		(590)	(10)
Change in valuation allowance	247	101	1,966	37	8,140	154
Total income tax (benefit) expense	\$ 78	32	\$ (762)	(14)	\$ 4,726	90

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

The Company intends to maintain this valuation allowance until it determines it is more likely than not that the asset can be realized through current and future taxable income. If not utilized, the Company's federal net operating loss of \$7,000,000 will begin to expire in 2034.





## **Table of Contents**

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

Income tax expense (or benefit) for each year is allocated to continuing operations, discontinued operations, other comprehensive income and other charges or credits recorded directly to shareholders' equity. This allocation is commonly referred to as intra-period tax allocation as outlined in Accounting Standards Codification Topic 740, Income Taxes (ASC 740). ASC 740 also includes an exception to the general principle of intra-period tax allocation discussed above. This exception requires that all items, i.e., discontinued operations and items charged or credited directly to other comprehensive income, be considered in determining the amount of the tax benefit that results from a loss from continuing operations. That is, when a company has a current period loss from continuing operations, management must consider income recorded in other categories in determining the tax benefit that is allocated to continuing operations. The ASC 740 exception, however, only relates to the allocation of the current year tax provision, which may be zero, and does not change a company's overall tax provision.

Accordingly, for the year ended December 31, 2015, the Company recorded a tax benefit of \$762,000 in continuing operations and a corresponding income tax expense in other comprehensive income associated with the increase in the unrealized gain on available for sale securities and the decrease in the unfunded post-retirement benefit obligation.

The Company recorded income tax expense of \$78,000 during the second quarter of 2016 relating to the resolution of a recent examination by the Internal Revenue Service.

### **NOTE J - SHAREHOLDERS' EQUITY:**

Shareholders' equity of the Company includes the undistributed earnings of the bank subsidiary. Dividends to the Company's shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. Dividends paid by the bank subsidiary are subject to the written approval of the Commissioner of Banking and Consumer Finance of the State of Mississippi and the Federal Deposit Insurance Corporation (the FDIC). At December 31, 2016, \$11,408,685 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank (FRB).

On February 25, 2009, the Board approved the repurchase of up to 3% of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 47,756 shares have been repurchased and retired through December 31, 2016.

**Table of Contents**

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

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

As of December 31, 2016, the most recent notification from the FDIC categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Common equity tier 1 capital ratio of 6.50% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater and a Leverage capital ratio of 5.00% or greater, with a capital conservation buffer above these requirements of .625% for 2016. The buffer will increase annually until it is fully phased-in to 2.50% at January 1, 2019. There are no conditions or events since that notification that Management believes have changed the bank subsidiary's category.

**Table of Contents**

The Company's actual capital amounts and ratios and required minimum capital amounts and ratios for 2016, 2015 and 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2016:</b>				
Total Capital (to Risk Weighted Assets)	\$ 95,262	22.94%	\$ 33,220	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	18,687	4.50%
Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	24,915	6.00%
Tier 1 Capital (to Average Assets)	90,068	13.12%	27,464	4.00%

<b>December 31, 2015:</b>				
Total Capital (to Risk Weighted Assets)	\$ 95,395	21.83%	\$ 34,954	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	19,662	4.50%
Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	26,215	6.00%
Tier 1 Capital (to Average Assets)	89,901	13.18%	27,291	4.00%

<b>December 31, 2014:</b>				
Total Capital (to Risk Weighted Assets)	\$ 100,243	21.95%	\$ 36,528	8.00%
Tier 1 Capital (to Risk Weighted Assets)	94,493	20.70%	18,264	4.00%
Tier 1 Capital (to Average Assets)	94,493	13.29%	28,437	4.00%

The bank subsidiary's actual capital amounts and ratios and required minimum capital amounts and ratios and capital amounts and ratios to be well capitalized for 2016, 2015 and 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2016:</b>						
Total Capital (to Risk Weighted Assets)	\$ 91,882	22.29%	\$ 32,975	8.00%	\$ 41,219	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	18,548	4.50%	26,792	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	24,731	6.00%	32,975	8.00%
Tier 1 Capital (to Average Assets)	86,726	12.47%	27,820	4.00%	34,775	5.00%

<b>December 31, 2015:</b>						
Total Capital (to Risk Weighted Assets)	\$ 91,963	21.09%	\$ 34,889	8.00%	\$ 43,611	10.00%

Edgar Filing: PEOPLES FINANCIAL CORP /MS/ - Form 10-K

Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	19,625	4.50%	28,347	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	26,166	6.00%	34,889	8.00%
Tier 1 Capital (to Average Assets)	86,479	13.47%	25,680	4.00%	32,100	5.00%
December 31, 2014:						
Total Capital (to Risk Weighted Assets)	\$ 96,427	21.28%	\$ 36,247	8.00%	\$ 45,309	10.00%
Tier 1 Capital (to Risk Weighted Assets)	90,720	20.02%	18,124	4.00%	27,186	6.00%
Tier 1 Capital (to Average Assets)	90,720	13.15%	27,599	4.00%	34,499	5.00%

**Table of Contents**

## NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2016	2015	2014
Other service charges, commissions and fees	\$ 116	\$ 109	\$ 84
Rentals	320	393	435
Other	223	212	113
Totals	\$ 659	\$ 714	\$ 632

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2016	2015	2014
Advertising	\$ 544	\$ 505	\$ 552
Data processing	1,346	1,403	1,339
FDIC and state banking assessments	901	928	1,033
Legal and accounting	566	785	493
Other real estate	868	2,264	1,610
ATM expense	555	1,183	2,409
Trust expense	370	355	323
Other	1,689	2,098	1,890
Totals	\$ 6,839	\$ 9,521	\$ 9,649

## NOTE L - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and irrevocable letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the bank subsidiary has in particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and irrevocable letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the agreement. Irrevocable letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments and irrevocable letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments and irrevocable letters of credit may expire without being drawn upon, the total amounts do not



**Table of Contents**

necessarily represent future cash requirements. The Company evaluated each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on Management's credit evaluation of the customer. Collateral obtained varies but may include equipment, real property and inventory.

The Company generally grants loans to customers in its trade area.

At December 31, 2016, 2015 and 2014, the Company had outstanding irrevocable letters of credit aggregating \$410,286, \$1,919,678 and \$1,879,678, respectively. At December 31, 2016, 2015 and 2014, the Company had outstanding unused loan commitments aggregating \$42,401,431, \$41,935,725 and \$66,663,320, respectively. Approximately \$16,476,000, \$11,335,000 and \$30,910,000 of outstanding commitments were at fixed rates and the remainder was at variable rates at December 31, 2016, 2015 and 2014, respectively.

**NOTE M - CONTINGENCIES:**

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

**NOTE N - CONDENSED PARENT COMPANY ONLY FINANCIAL INFORMATION:**

Peoples Financial Corporation began its operations September 30, 1985, when it acquired all the outstanding stock of The Peoples Bank, Biloxi, Mississippi. A condensed summary of its financial information is shown below.



**Table of Contents**

## CONDENSED BALANCE SHEETS (IN THOUSANDS):

December 31,	2016	2015	2014
<b>Assets</b>			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	\$ 85,118	\$ 88,415	\$ 91,179
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	191	28	160
Other assets	3,151	3,395	3,611
<b>Total assets</b>	<b>\$ 88,461</b>	<b>\$ 91,839</b>	<b>\$ 94,951</b>
<b>Liabilities and Shareholders Equity:</b>			
Other liabilities	\$	\$	\$
Total liabilities			
Shareholders equity	88,461	91,839	94,951
<b>Total liabilities and shareholders equity</b>	<b>\$ 88,461</b>	<b>\$ 91,839</b>	<b>\$ 94,951</b>

**Table of Contents**

## CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2016	2015	2014
<b>Income</b>			
Distributed income of bank subsidiary	\$ 75	\$	\$
Undistributed income (loss) of bank subsidiary	247	(4,242)	(10,025)
Other loss	(32)	(208)	(53)
<b>Total income (loss)</b>	<b>290</b>	<b>(4,450)</b>	<b>(10,078)</b>
<b>Expenses</b>			
Other	123	142	124
<b>Total expenses</b>	<b>123</b>	<b>142</b>	<b>124</b>
<b>Income (loss) before income taxes</b>	<b>167</b>	<b>(4,592)</b>	<b>(10,202)</b>
Income tax benefit			(198)
<b>Net income (loss)</b>	<b>\$ 167</b>	<b>\$ (4,592)</b>	<b>\$ (10,004)</b>

**Table of Contents**

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

Years Ended December 31,	2016	2015	2014
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 167	\$ (4,592)	\$ (10,004)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Loss on other investments	51	218	64
Undistributed (income) loss of subsidiaries	(247)	4,242	10,025
Other assets	(8)		25
Other liabilities			(161)
<b>Net cash used in operating activities</b>	<b>(37)</b>	<b>(132)</b>	<b>(51)</b>
<b>Cash flows from investing activities:</b>			
Redemption of equity securities	200		236
<b>Net cash provided by investing activities</b>	<b>200</b>		<b>236</b>
<b>Cash flows from financing activities:</b>			
Dividends paid			(512)
<b>Net cash used in financing activities</b>			<b>(512)</b>
<b>Net increase (decrease) in cash</b>	<b>163</b>	<b>(132)</b>	<b>(327)</b>
<b>Cash, beginning of year</b>	<b>28</b>	<b>160</b>	<b>487</b>
<b>Cash, end of year</b>	<b>\$ 191</b>	<b>\$ 28</b>	<b>\$ 160</b>

## NOTE O - EMPLOYEE AND DIRECTOR BENEFIT PLANS:

The Company sponsors the Peoples Financial Corporation Employee Stock Ownership Plan ( ESOP ). Employees who are in a position requiring at least 1,000 hours of service during a plan year and who are 21 years of age are eligible to participate in the ESOP. The Plan included 401(k) provisions and the former Gulf National Bank Profit Sharing Plan. Effective January 1, 2001, the ESOP was amended to separate the 401(k) funds into the Peoples Financial Corporation 401(k) Profit Sharing Plan. The separation had no impact on the eligibility or benefits provided to participants of either plan. The 401(k) provides for a matching contribution of 75% of the amounts contributed by the employee (up to 6% of compensation). Contributions are determined by the Board of Directors and may be paid either in cash or Peoples Financial Corporation common stock. Total contributions to the plans charged to operating expense were \$276,000, \$260,000 and \$280,000 in 2016, 2015 and 2014, respectively.



---

**Table of Contents**

Compensation expense of \$7,804,295, \$7,576,755 and \$7,678,640 was the basis for determining the ESOP contribution allocation to participants for 2016, 2015 and 2014, respectively. The ESOP held 276,628, 285,785 and 315,269 allocated shares at December 31, 2016, 2015 and 2014, respectively.

The Company established an Executive Supplemental Income Plan and a Directors' Deferred Income Plan, which provide for pre-retirement and post-retirement benefits to certain key executives and directors. Benefits under the Executive Supplemental Income Plan are based upon the position and salary of the officer at retirement or death. Normal retirement benefits under the plan are equal to 67% of salary for the president and chief executive officer, 58% of salary for the executive vice president and 50% of salary for all other executive officers and are payable monthly over a period of fifteen years. Under the Directors' Deferred Income Plan, the directors are given an opportunity to defer receipt of their annual directors' fees until age sixty-five. For those who choose to participate, benefits are payable monthly for ten years beginning the first day of the month following the director's normal retirement date. The normal retirement date is the later of the normal retirement age (65) or separation of service. Interest on deferred fees accrues at an annual rate of ten percent, compounded annually. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to \$17,176,771, \$16,820,058 and \$16,370,384 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.25% in 2016 and 4.50% in 2015 and 2014, and the interest ramp-up method has been accrued. The accrual amounted to \$12,221,421, \$11,813,343 and \$11,465,119 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

The Company also has additional plans for post-retirement benefits for certain key executives. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to \$1,604,333, \$1,473,607 and \$1,346,910 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2016 and 2015 and 4.50% in 2014, and the projected unit cost method has been accrued. The accrual amounted to \$1,544,017, \$1,519,537 and \$1,450,280 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

Additionally, there are two endorsement split dollar policies, with the bank subsidiary as owner and beneficiary, which provide a guaranteed death benefit to the participants' beneficiaries. These contracts are carried at their cash surrender value, which amounted to \$292,063, \$284,664 and \$277,278 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2016 and 4.50% in 2015 and 2014, and the projected unit cost method has been accrued. The accrual amounted to \$88,798, \$82,202 and \$80,997 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

**Table of Contents**

The Company has additional plans for post-retirement benefits for directors. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to \$166,822, \$157,051 and \$150,687 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2016 and 4.50% in 2015 and 2014, and the projected unit cost method has been accrued. The accrual amounted to \$216,020, \$212,662 and \$210,207 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

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

**Table of Contents**

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

Years Ended December 31,	2016	2015	2014
Service cost	\$ 93	\$ 94	\$ 105
Interest cost	101	102	132
Amortization of net gain	(73)	(44)	(14)
Amortization of prior service credit	(81)	(82)	(81)
Net periodic post-retirement benefit cost (credit)	\$ 40	\$ 70	\$ 142

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.00% in 2016, 4.20% in 2015 and 4.00% in 2014. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.50% in 2016. The rate was assumed to decrease gradually to 5.00% for 2022 and remain at that level thereafter. If the health care cost trend rate assumptions were increased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2016, would be increased by 13.78%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have increased by 17.23%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2016, would be decreased by 11.28%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have decreased by 13.83%.

The following table presents the estimated benefit payments for each of the next five years and in the aggregate for the next five years (in thousands):

2017	\$ 145
2018	119
2019	56
2020	77
2021	106
2022-2026	922

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

Accumulated post-retirement benefit obligation as of December 31, 2015	\$ 2,508
Service cost	93
Interest cost	101
Actuarial gain	(113)
Benefits paid	(75)

Accumulated post-retirement benefit obligation as of December 31, 2016	\$	2,514
--	----	-------



**Table of Contents**

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

	2016	2015	2014
Fair value of plan assets at beginning of year	\$	\$	\$
Actual return on assets			
Employer contribution	75	37	64
Benefits paid, net	(75)	(37)	(64)
Fair value of plan assets at end of year	\$	\$	\$

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

For the year ended December 31,	2016	2015	2014
Net gain (loss)	\$ 723	\$ 697	\$ (80)
Prior service charge	676	730	783
Total accumulated other comprehensive income	\$ 1,399	\$ 1,427	\$ 703

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

For the year ended December 31,	2016
Unrecognized actuarial gain	\$ 39
Amortization of prior service cost	(81)
Total accumulated other comprehensive loss	\$ (42)

The prior service credit that will be recognized in accumulated other comprehensive income during 2017 is \$81,381.

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

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

## **Table of Contents**

### Fair Value Hierarchy

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

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

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

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

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

### Cash and Due from Banks

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

### Available for Sale Securities

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

### Held to Maturity Securities

The fair value of held to maturity securities is based on quoted market prices.

### Other Investments

The carrying amount shown as other investments approximates fair value.

### Federal Home Loan Bank Stock

The carrying amount shown as Federal Home Loan Bank Stock approximates fair value.



## Table of Contents

### Loans

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the remaining maturities. The cash flows considered in computing the fair value of such loans are segmented into categories relating to the nature of the contract and collateral based on contractual principal maturities. Appropriate adjustments are made to reflect probable credit losses. Cash flows have not been adjusted for such factors as prepayment risk or the effect of the maturity of balloon notes. The fair value of floating rate loans is estimated to be its carrying value. At each reporting period, the Company determines which loans are impaired. Accordingly, the Company's impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan, which are generally collateral-dependent, is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. Impaired loans are non-recurring Level 3 assets.

### Other Real Estate

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

### Cash Surrender Value of Life Insurance

The carrying amount of cash surrender value of bank-owned life insurance approximates fair value.

### Deposits

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

**Table of Contents****Borrowings from Federal Home Loan Bank**

The fair value of FHLB fixed rate borrowings is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of FHLB variable rate borrowings is estimated to be its carrying value.

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of December 31, 2016, 2015 and 2014, were as follows (in thousands):

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>December 31, 2016:</b>				
U.S. Treasuries	\$ 147,624	\$	\$ 147,624	\$
U.S. Government agencies	24,825		24,825	
Mortgage-backed securities	42,708		42,708	
States and political subdivisions	17,963		17,963	
Equity securities	458		458	
<b>Total</b>	<b>\$ 233,578</b>	<b>\$</b>	<b>\$ 233,578</b>	<b>\$</b>
<b>December 31, 2015:</b>				
U.S. Treasuries	\$ 63,754	\$	\$ 63,754	\$
U.S. Government agencies	84,546		84,546	
Mortgage-backed securities	30,130		30,130	
States and political subdivisions	23,727		23,547	180
Equity securities	650		650	
<b>Total</b>	<b>\$ 202,807</b>	<b>\$</b>	<b>\$ 202,627</b>	<b>\$ 180</b>
<b>December 31, 2014:</b>				
U.S. Treasuries	\$ 29,654	\$	\$ 29,654	\$
U.S. Government agencies	117,989		117,989	
Mortgage-backed securities	35,817		35,817	
States and political subdivisions	31,012		31,012	
Equity securities	650		650	
<b>Total</b>	<b>\$ 215,122</b>	<b>\$</b>	<b>\$ 215,122</b>	<b>\$</b>

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2016, 2015 and 2014 were as follows (in thousands):

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

2016	\$ 5,006	\$	\$	\$ 5,006
2015	4,981			4,981
2014	10,610			10,610

**Table of Contents**

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

December 31:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
2016	\$ 8,513	\$	\$	\$ 8,513
2015	9,916			9,916
2014	7,646			7,646

The following table presents a summary of changes in the fair value of other real estate which is measured using Level 3 inputs (in thousands):

	2016	2015	2014
Balance, beginning of year	\$ 9,916	\$ 7,646	\$ 9,630
Loans transferred to ORE	1,903	7,502	1,345
Sales	(2,524)	(4,295)	(2,068)
Writedowns	(782)	(937)	(1,261)
Balance, end of year	\$ 8,513	\$ 9,916	\$ 7,646

**Table of Contents**

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at December 31, 2016, 2015 and 2014, are as follows (in thousands):

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

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



**Table of Contents**

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2014:</b>					
<b>Financial Assets:</b>					
Cash and due from banks	\$ 23,556	\$ 23,556	\$	\$	\$ 23,556
Available for sale securities	215,122		215,122		215,122
Held to maturity securities	17,784		17,859		17,859
Other investments	2,962	2,962			2,962
Federal Home Loan Bank stock	2,504		2,504		2,504
Loans, net	353,201			355,004	355,004
Other real estate	7,646			7,646	7,646
Cash surrender value of life insurance	18,145		18,145		18,145
<b>Financial Liabilities:</b>					
<b>Deposits:</b>					
Non-interest bearing	103,607	103,607			103,607
Interest bearing	413,313			413,672	413,672
Borrowings from Federal Home Loan Bank	38,708		40,720		40,720

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Peoples Financial Corporation

Biloxi, Mississippi

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the Company) as of December 31, 2016, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Corporation and subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Atlanta, Georgia

March 15, 2017

**Table of Contents**

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

None.

**ITEM 9a - CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of December 31, 2016, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the period ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

Management of the Company, including its Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2016, using the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment included a review of the documentation of controls, evaluations of the design of the internal control system and tests of operating effectiveness of the internal controls. Based on the assessment, management has concluded that the Company had effective internal control over financial reporting as of December 31, 2016.

Chevis C. Swetman  
Chairman, President and Chief Executive Officer  
March 15, 2017

Lauri A. Wood  
Chief Financial Officer  
March 15, 2017

**Table of Contents**

**ITEM 9b - OTHER INFORMATION**

None.

**PART III**

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

The information in Sections II, III, VIII and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 26, 2017, which was filed by the Company in definitive form with the Commission on March 15, 2017, is incorporated herein by reference.

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

**ITEM 11 - EXECUTIVE COMPENSATION**

The information in Section VI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 26, 2017, which was filed by the Company in definitive form with the Commission on March 15, 2017, is incorporated herein by reference.

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

The information in Sections IV and V contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 26, 2017, which was filed by the Company in definitive form with the Commission on March 15, 2017, is incorporated herein by reference.

**Table of Contents**

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

The information in Sections III and VII contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 26, 2017, which was filed by the Company in definitive form with the Commission on March 15, 2017, is incorporated herein by reference.

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

The information in Section XI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 26, 2017, which was filed by the Company in definitive form with the Commission on March 15, 2017, is incorporated herein by reference.

**PART IV**

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

(a) 1. Index of Financial Statements:

See Item 8.

(a) 2. Index of Financial Statement Schedules:

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

**Table of Contents**

## (a) 3. Index of Exhibits:

	Incorporated by Reference	Form of	Date of	Exhibit Number
Description	to Registration or File Number	Report	Report	in Report
(3.1) Articles of Incorporation	0-30050	10/a	6/21/1999	3.1
(3.2) By-Laws	0-30050	10/a	6/21/1999	3.2
(10.1) Description of Automobile Plan	0-30050	10-K	12/31/2003	10.1
(10.2) Directors' Deferred Income Plan Agreements	0-30050	10-K	12/31/2003	10.2
(10.3) Executive Supplemental Income Plan Agreement - Chevis C. Swetman	001-12103	10-Q	9/30/2007	10.2
(10.4) Executive Supplemental Income Plan Agreement - A. Wes Fulmer	001-12103	10-Q	9/30/2007	10.3
(10.5) Executive Supplemental Income Plan Agreement - Lauri A. Wood	001-12103	10-Q	9/30/2007	10.4
(10.6) Split Dollar Agreements	0-30050	10-K	12/31/2003	10.4
(10.7) Deferred Compensation Plan	001-12103	10-Q	9/30/2007	10.1
(10.8) Description of Stock Incentive Plan	33-15595	10-K	12/31/2001	10.6
(10.9) Description of Bonus Plan	001-12103	10-Q	9/30/2010	10.1
(21) Subsidiaries of the registrant	33-15595	10-K	12/31/1988	22
(23.1) Consent of Independent Registered Public Accounting Firm - Porter Keadle Moore, LLC*				
(31.1) Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *				
(31.2) Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *				
(32.1) Certification of Principal Executive Officer Pursuant to 18 U.S.C. ss. 1350*				
(32.2) Certification of Principal Financial Officer				

Pursuant to 18 U.S.C. ss. 1350\*

- (101) The following materials from the Company's 2016 Annual Report to Shareholders, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at December 31, 2016, 2015 and 2014, (ii) Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Loss for the years ended December 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 and (vi) Notes to the Consolidated Financial Statements for the years ended December 31, 2016, 2015 and 2014.\*

\* Filed herewith.

Table of Contents

SIGNATURES

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

PEOPLES FINANCIAL CORPORATION

(Registrant)

Date: March 15, 2017

BY: /s/ Chevis C. Swetman

Chevis C. Swetman, Chairman of the Board

(principal executive officer)

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

BY: /s/ Chevis C. Swetman

Date: March 15, 2017

Chevis C. Swetman, Chairman, President and CEO

(principal executive officer)

BY: /s/ Drew Allen

Date: March 15, 2017

Drew Allen, Director

BY: /s/ Dan Magruder

Date: March 15, 2017

Dan Magruder, Director

BY: /s/ Rex E. Kelly

Date: March 15, 2017

Rex E. Kelly, Director

BY: /s/ Jeffrey H. O Keefe

Date: March 15, 2017

Jeffrey H. O Keefe, Director

BY: /s/ Lauri A. Wood

Date: March 15, 2017

Lauri A. Wood, Chief Financial Officer

(principal financial and accounting officer)



