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

WASHINGTON, D.C. 20549

FORM 10-K

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

OR

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

For the fiscal year ended December 31, 2013 Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi (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:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

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

Common, $1.00 Par Value

(Title of each class)

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

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

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

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

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

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

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

Large accelerated filer ___ Accelerated filer ____ Non-Accelerated filer ___ Smaller reporting company X__

(Do not check if a smaller reporting company)

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

At June 30, 2013, the aggregate market value of the registrant s voting stock held by non-affiliates was approximately $62,102,000.

On February 21, 2014, the registrant had outstanding 5,123,186 shares of common stock, par value of $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement issued in connection with the Annual Meeting of Shareholders to be held April 23, 2014, are incorporated by reference into Part III of this report.

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PART I

ITEM 1 - DESCRIPTION OF BUSINESS

BACKGROUND AND CURRENT OPERATIONS

General

Peoples Financial Corporation (the Company) was organized as a one bank holding company in 1984. The Company is headquartered in Biloxi, Mississippi. At December 31, 2013, the Company operated in the state of Mississippi through its wholly-owned subsidiary, The Peoples Bank, Biloxi, Mississippi (the Bank). The Company is engaged, through this subsidiary, in the banking business. The Bank is the Company s principal asset and primary source of revenue.

The Main Office, operations center and asset management and trust services of the Bank are located in downtown Biloxi, MS. At December 31, 2013, the Bank also had 16 branches located throughout Harrison, Hancock, Jackson and Stone Counties. The Bank has automated teller machines (ATM) at its Main Office, all branch locations and at numerous non-proprietary locations.

The Bank Subsidiary

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

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

Nonbank Subsidiary

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

Products And Services

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

The Bank s primary lending focus is to offer business, commercial, real estate, construction, personal and installment loans, with an emphasis on commercial lending. The Bank s exposure for out of area, residential and land development, construction and commercial real estate loans as well as concentrations in the hotel/motel and gaming industries are monitored by the Company. Each loan officer has board approved lending limits on the principal amount of secured and unsecured loans

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that can be approved for a single borrower without prior approval of the senior credit committee. All loans, however, must meet the credit underwriting standards and loan policies of the Bank.

Deposit services include interest bearing and non-interest bearing checking accounts, savings accounts, certificates of deposit, and IRA accounts. The Bank also offers a non-deposit funds management account, which is not insured by the Federal Deposit Insurance Corporation (FDIC). The Bank generally provides depository accounts to individuals; small and middle market businesses; and state, county and local government entities in its trade area at interest rates consistent with market conditions.

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

The Bank also offers a variety of other services including safe deposit box rental, wire transfer services, night drop facilities, collection services, cash management and Internet banking. The Bank has 55 ATMs at its branch locations and other off-site, non-proprietary locations, providing bank customers access to their depository accounts. The Bank is a member of the PULSE network.

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

Customers

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

Employees

At December 31, 2013, the Bank employed 168 full-time employees and 12 part-time employees. The Company has no employees who are not employees of the bank subsidiary. Through the Bank, employees receive salaries and benefits, which include 401(k) and ESOP plans, cafeteria plan, and life, health and disability insurance. The Company considers its relationship with its employees to be good.

Competition

The Bank is in direct competition with numerous local and regional commercial banks as well as other non-bank institutions. Interest rates paid and charged on deposits and loans are the primary competitive factors within the Bank s trade area. The Bank also competes for deposits and loans with insurance companies, finance companies, brokerage houses and credit unions. The principal competitive factors in the markets for deposits and loans are interest rates paid and charged. The Company also competes through efficiency, quality of customer service, the range of services and products it provides, the convenience of its branch and ATM locations and the accessibility of its staff. The Bank intends to continue its strategy of being a local, community bank offering traditional bank services and providing quality service in its local trade area.

Miscellaneous

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

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

Available Information

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

REGULATION AND SUPERVISION

Bank Holding Company

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

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

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

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

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

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

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

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

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

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

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

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

Bank Subsidiary

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

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

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

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consolidated total assets, less its average amount of tangible equity.

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

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

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

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

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

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

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

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

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

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

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

Summary

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

SUPPLEMENTAL STATISTICAL INFORMATION

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

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

Net Interest Income, the difference between Interest Income and Interest Expense, is the most significant component of the Company s earnings. For interest analytical purposes, Management adjusts Net Interest Income to a taxable equivalent basis using a Federal Income Tax rate of 34% in 2013, 2012 and 2011 on tax-exempt items (primarily interest on municipal securities).

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

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

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

Credit Risk Management and Loan Loss Experience

In the normal course of business, the Bank assumes risks in extending credit. The Bank manages these risks through its lending policies, credit underwriting analysis, appraisal requirements,

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concentration and exposure limits, loan review procedures and the diversification of its loan portfolio. Although it is not possible to predict loan losses with complete accuracy, Management constantly reviews the characteristics of the loan portfolio to determine its overall risk profile and quality.

Constant attention to the quality of the loan portfolio is achieved by the loan review process. Throughout this ongoing process, Management is advised of the condition of individual loans and of the quality profile of the entire loan portfolio. Any loan or portion thereof which is classified loss by regulatory examiners or which is determined by Management to be uncollectible because of such factors as the borrower s failure to pay interest or principal, the borrower s financial condition, economic conditions in the borrower s industry or the inadequacy of underlying collateral, is charged-off.

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

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

Further information concerning the provision for loan losses and the allowance for loan losses is presented in Management s Discussion and Analysis in Item 7 of this Annual Report on Form 10-K and in Note A - Business and Summary of Significant Accounting Policies to the 2013 Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Return on Equity and Assets

The Company s results and key ratios for 2009 2013 are summarized in the Selected Financial Data in Item 6 and Management s Discussion and Analysis in Item 7 of this Annual Report on Form 10-K.

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

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

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SCHEDULE I-A

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

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

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

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

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SCHEDULE I-B

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

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2013	2012	2011
INTEREST EARNING ASSETS:			
Loans (2)	$ 405,463	$ 430,205	$ 405,367
Federal funds sold	26,306	6,601	2,857
Available for sale securities:			
Taxable securities	247,097	264,248	269,401
Non-taxable securities	36,605	39,407	39,941
Other securities	2,316	3,856	2,868
Held to maturity securities:			
Non-taxable securities	9,936	4,698	1,882
TOTAL INTEREST EARNING ASSETS	$ 727,723	$ 749,015	$ 722,316
INTEREST BEARING LIABILITIES:			
Savings and negotiable interest bearing deposits	$ 246,728	$ 230,829	$ 226,097
Time deposits	123,198	149,560	169,617
Federal funds purchased and securities sold under agreements to repurchase	181,702	169,352	154,423
Other borrowed funds	27,293	54,188	37,825
TOTAL INTEREST BEARING LIABILITIES	$ 578,921	$ 603,929	$ 587,962

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

(2) Net of unearned income. Includes nonaccrual loans

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SCHEDULE I-C

Interest Earned or Paid on Major Categories of Interest Earning Assets

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2013	2012	2011
INTEREST EARNED ON:			
Loans (1)	$ 18,927	$ 18,576	$ 17,923
Federal funds sold	69	16	7
Available for sale securities:			
Taxable securities	4,407	4,527	5,662
Non-taxable securities	1,946	2,073	2,041
Other securities	29	15	23
Held to maturity securities:			
Non-taxable securities	363	189	107
TOTAL INTEREST EARNED (1)	$ 25,741	$ 25,396	$ 25,763
INTEREST PAID ON:			
Savings and negotiable interest bearing deposits	$ 179	$ 410	$ 819
Time deposits	919	1,090	1,535
Federal funds purchased and securities sold under agreements to repurchase	158	335	638
Other borrowed funds	191	233	186
TOTAL INTEREST PAID	$ 1,447	$ 2,068	$ 3,178

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

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SCHEDULE I-D

Average Interest Rate Earned or Paid for Major Categories of

Interest Earning Assets And Interest Bearing Liabilities

For the Years Ended December 31,	2013	2012	2011
AVERAGE RATE EARNED ON:			
Loans	4.67%	4.32%	4.42%
Federal funds sold	.26%	.24%	.25%
Available for sale securities:			
Taxable securities	1.78%	1.71%	2.10%
Non-taxable securities	5.32%	5.26%	5.11%
Other securities	1.25%	.39%	.80%
Held to maturity securities:			
Non-taxable securities	3.65%	4.02%	5.69%
TOTAL (weighted average rate)(1)	3.54%	3.39%	3.57%
AVERAGE RATE PAID ON:			
Savings and negotiable interest bearing deposits	.07%	.18%	.36%
Time deposits	.75%	.73%	.90%
Federal funds purchased and securities sold under agreements to repurchase	.09%	.20%	.41%
Other borrowed funds	.70%	.43%	.49%
TOTAL (weighted average rate)	.25%	.34%	.54%

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

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SCHEDULE I-E

Net Interest Earnings and Net Yield on Interest Earning Assets

(In thousands, except percentages)

For the Years Ended December 31,		2013		2012		2011
Total interest income (1)	$	25,741	$	25,396	$	25,763
Total interest expense		1,447		2,068		3,178
Net interest earnings	$	24,294	$	23,328	$	22,585
Net yield on interest earning assets		3.34%		3.11%		3.13%

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

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SCHEDULE I-F

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

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

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

(2) Includes interest on nonaccrual loans.

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

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SCHEDULE I-F (continued)

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

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

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

(2) Includes interest on nonaccrual loans.

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

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SCHEDULE II-A

Book Value of Securities Portfolio

(In thousands)

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

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SCHEDULE II-B

Maturity Securities Portfolio at December 31, 2013

And Weighted Average Yields of Such Securities

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

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

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SCHEDULE III-A

Loan Portfolio

Loans by Type Outstanding (1) (In thousands)

December 31,	2013	2012	2011	2010	2009
Real estate, construction	$ 64,390	$ 79,924	$ 90,068	$ 91,047	$ 94,460
Real estate, mortgage	259,082	298,283	286,502	260,286	299,403
Loans to finance agricultural production	726	43	1,164	1,122	1,755
Commercial and industrial	42,653	43,328	43,079	43,098	52,250
Loans to individuals for household, family and other consumer expenditures	7,139	7,933	8,327	10,687	9,049
Obligations of states and political subdivisions	1,023	1,248	2,840	2,938	7,891
All other loans	336	324	427	721	168
Total	$ 375,349	$ 431,083	$ 432,407	$ 409,899	$ 464,976

(1) No foreign debt outstanding.

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SCHEDULE III-B

Maturities and Sensitivity to Changes in

Interest Rates of the Loan Portfolio as of December 31, 2013

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

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SCHEDULE III-C

Non-Performing Loans (In thousands)

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

(1) The Bank places loans on a nonaccrual status when, in the opinion of Management, they possess sufficient uncertainty as to timely collection of interest or principal so as to preclude the recognition in reported earnings of some or all of the contractual interest. See Note A Business and Summary of Significant Accounting Policies and Note C Loans to the 2013 Consolidated Financial Statements in Item 8 in this Annual Report on Form 10-K for discussion of impaired loans.

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SCHEDULE IV-A

Summary of Loan Loss Expenses

(In thousands, except percentage data)

December 31,	2013	2012	2011	2010	2009
Average amount of loans outstanding (1)(2)	$ 405,463	$ 430,205	$ 405,367	$ 436,393	$ 467,992
Balance of allowance for loan losses at beginning of period	$ 8,857	$ 8,136	$ 6,650	$ 7,828	$ 11,114
Loans charged-off:					
Commercial, financial and agricultural	499	448	22	348	103
Consumer and other	9,623	3,228	1,650	7,943	8,977
Total loans charged-off	10,122	3,676	1,672	8,291	9,080
Recoveries of loans:					
Commercial, financial and agricultural	126	23	14	14	
Consumer and other	412	110	209	254	569
Total recoveries	538	133	223	268	569
Net loans charged-off	9,584	3,543	1,449	8,023	8,511
Provision for loan losses charged to operating expense	9,661	4,264	2,935	6,845	5,225
Total	$ 8,934	$ 8,857	$ 8,136	$ 6,650	$ 7,828
Ratio of net charge-offs during period to average loans outstanding	2.36%	0.82%	0.36%	1.84%	1.82%

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

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SCHEDULE IV-B

Allocation of the Allowance for Loan Losses

(In thousands)

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

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SCHEDULE V

Summary of Average Deposits and Their Yields

(In thousands, except percentage data)

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

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

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

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SCHEDULE VI

Short Term Borrowings

(In thousands, except percentage data)

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

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

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SCHEDULE VII

Interest Sensitivity/Gap Analysis

(In thousands)

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

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

Capital Resources

Information about the Company s capital resources is included in Note J Shareholders Equity to the 2013 Consolidated Financial Statements in this Annual Report on Form 10-K.

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ITEM 1a - RISK FACTORS

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

RISKS RELATING TO THE COMPANY S BUSINESS

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

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

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

A significant portion of the Company s loan portfolio is dependent on real estate. At December 31, 2013, approximately 87% of the Company s loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. A continued deterioration in the economy affecting the value of real estate generally or in the Company s trade area specifically could significantly impair the value of the collateral and the ability to sell the collateral upon foreclosure. Furthermore, it is likely that the Company would be required to increase the provision for loan losses. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate value or to increase the allowance for loan losses, the Company s profitability and financial condition could be adversely impacted.

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

The Company has concentrations of loan exposure to the hotel/motel and gaming industries. At December 31, 2013, these exposures were approximately $49,842,000 and $29,570,000 or 13 % and 8%, respectively, of the total loan portfolio. The recent downturn in the economy has negatively impacted tourism, which is one of the major factors for success in these industries. Given the size of these relationships, a significant loss in either of these portfolios could materially and adversely

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affect the Company s earnings.

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

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

Current economic factors could negatively impact the Company s liquidity.

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

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

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

The Company s profitability is vulnerable to interest rate fluctuations.

The Company s profitability is dependent to a large extent on net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company is asset sensitive to market interest rates, as its assets reprice more quickly to changes in interest rates than do its liabilities. Interest rates dropped by the unprecedented amount of 400 basis points during 2008 as the Federal Reserve, through its Federal Open Market Committee, attempted to stabilize the financial markets, reduce the effects of the recession and stimulate the economy. These actions taken by the Federal Reserve continued to impact the Company s earnings in 2013. During 2010, the Federal Reserve increased the discount rate 25 basis points; however, there was no effect on the fed funds or prime interest rates. Discount or fed funds rate changes that occur in 2014 may affect the Company s earnings in the current year and/or in the future.

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

Many factors affect the demand for loans and the ability to attract deposits, including changes in government economic and monetary policies, particularly by the Federal Reserve, modifications to tax, banking and credit laws and regulations, national, state and local economic growth rates and employment rates. EESA was enacted in 2008 to address the asset quality, capital and liquidity issues facing certain financial institutions and to improve the general availability of credit for consumers and businesses. In addition, the American Recovery and Reinvestment Act (ARRA) was passed in 2009 in an effort to save and create jobs, stimulate the national economy and promote long-term growth and stability. Dodd-Frank was passed in 2010 to increase transparency, accountability and oversight over financial firms and products as well as to provide protection to consumers. There can be no assurance that EESA, ARRA or Dodd-Frank will achieve their intended purposes. Furthermore, their failure could result in continuing or worsening economic and market conditions, and this could adversely affect our operations.

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

The Company is subject to the regulations of the SEC, the Federal Reserve Board, the FDIC and the Department of Banking. New regulations issued by these agencies, including but not limited to those relating to The Dodd-Frank Act and the Consumer Financial Protection Bureau, may adversely affect the Company s ability to carry on its business activities. The Company is also subject to various other federal and state laws and certain changes in these laws and regulations may adversely affect the Company s operations. Noncompliance with certain of these regulations may impact the Company s business plans.

The Company is also subject to the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of the Company and may also require additional effort or cost to implement.

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

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

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

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

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

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

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

RISKS RELATING TO AN INVESTMENT IN THE COMPANY S COMMON STOCK

Securities issued by the Company are not FDIC insured.

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

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

The Company s directors and executive officers beneficially own approximately 20% of the outstanding common stock of Peoples Financial Corporation. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on the Company s business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval.

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

Certain provisions of the Company s articles of incorporation and bylaws and of state and federal law may make it more difficult for someone to acquire control of the Company. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Company s shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take in to account several factors, including the resources of the acquirer and the antitrust effects of the acquisition. There are also Mississippi statutory provisions and provisions in the Company s articles of incorporation and bylaws that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in the Company s articles and bylaws could result in the Company being less attractive to a potential acquirer.

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

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

ITEM 1b - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

The principal properties of the Company are its 17 business locations, including the Main Office, which is located at 152 Lameuse Street in Biloxi, MS, 39530. The Keesler Branch located at 1507 Meadows Drive, Keesler AFB, MS 39534, is rented from Department of Defense. All other branch locations are owned by the Company. The address of the other branch locations are:

Bay St. Louis Office	408 Highway 90 East, Bay St. Louis, MS 39520
Cedar Lake Office	1740 Popps Ferry Road, Biloxi, MS 39532
Diamondhead Office	5429 West Aloha Drive, Diamondhead, MS 39525
D Iberville-St. Martin Office	10491 Lemoyne Boulevard, D Iberville, MS 39540
Downtown Gulfport Office	1105 30th Avenue, Gulfport, MS 39501
Gautier Office	2609 Highway 90, Gautier, MS 39553
Handsboro Office	412 E. Pass Road, Gulfport, MS 39507
Long Beach Office	298 Jeff Davis Avenue, Long Beach, MS 39560
Ocean Springs Office	2015 Bienville Boulevard, Ocean Springs, MS 39564
Orange Grove Office	12020 Highway 49 North, Gulfport, MS 39503
Pass Christian Office	301 East Second Street, Pass Christian, MS 39571
Saucier Office	17689 Second Street, Saucier, MS 39574

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Waveland Office	470 Highway 90, Waveland, MS 39576
West Biloxi Office	2560 Pass Road, Biloxi, MS 39531
Wiggins Office	1312 S. Magnolia Drive, Wiggins, MS 39577

ITEM 3 - LEGAL PROCEEDINGS

Information relating to legal proceedings is included in Note M Contingencies to the 2013 Consolidated Financial Statements which is in Item 8 in this Annual Report on Form 10-K.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

At December 31, 2013, there were 496 holders of the common stock of the Company. The Company s stock is traded under the symbol PFBX and is quoted in publications under PplFnMS .

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

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

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

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

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

Peoples Financial Corporation (the   Company   ) is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management   s discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2013, 2012 and 2011. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

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Forward-Looking Information

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

New Accounting Pronouncements

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

Critical Accounting Policies

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

Allowance for loan losses:

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

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

Other Real Estate:

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

Employee Benefit Plans:

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

Income Taxes:

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

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OVERVIEW

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

Net Interest Income

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

2013 as compared with 2012

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

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

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

2012 as compared with 2011

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

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

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

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

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Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

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