

PEOPLES FINANCIAL CORP /MS/

Form 10-K

March 16, 2011

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**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, 2010**

**Commission File Number 001-12103**

**PEOPLES FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Mississippi

64-0709834

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification number)

Lameuse and Howard Avenues, Biloxi, Mississippi

39533

(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

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

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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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  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.

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

(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

At June 30, 2010, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$43,604,000.

On February 25, 2011, the registrant had outstanding 5,136,918 shares of common stock, par value of \$1.00 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2010 are incorporated by reference into Parts I, II and III of this report. Except for those portions of the Registrant's Annual Report to Shareholders expressly incorporated herein by reference, the Annual Report is not deemed filed with the Securities and Exchange Commission. Portions of the Registrant's Definitive Proxy Statement issued in connection with the Annual Meeting of Shareholders to be held April 27, 2011, 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, 2010, 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, 2010, the Bank also had 15 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 the trade area of 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 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, 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 that can be approved

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for a single borrower without prior approval of the loan 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 and small and middle market businesses 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 51 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, 2010, the Bank employed 185 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), ESOP, cafeteria plan, 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

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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](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 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 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

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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.

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. A bank holding company and its subsidiaries are also prohibited from acquiring any voting shares of or interest in, any banks located outside the state in which the operations of the bank holding company's subsidiaries are located, unless the acquisition is specially authorized by the statute of the state in which the target is located. Mississippi has enacted legislation which authorizes interstate acquisitions of banking organizations by bank holding companies outside of Mississippi, and also interstate branching transactions, subject to certain conditions and restrictions.

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 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.



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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

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nine risk classifications is appropriate for an institution.

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.

The most recent legislation to potentially impact the Bank is the Dodd-Frank Wall Street Reform and

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Consumer Protection Act, which was passed in 2010. Information concerning this legislation and the Emergency Economic Stabilization Act, which was passed in 2008, can be found on page 6 of the 2010 Annual Report to Shareholders and is incorporated herein by reference.

Information relating to Regulatory Matters is disclosed on page 6 of the 2010 Annual Report to Shareholders and is incorporated herein by reference.

**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 at pages 8-31 of the 2010 Annual Report to Shareholders.

**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 2010, 2009 and 2008 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.

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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 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 at pages 1-7 of the 2010 Annual Report to Shareholders and Note A Business and Summary of Significant Accounting Policies at pages 13-15 of the 2010 Annual Report to Shareholders and are incorporated herein by reference.

**Return on Equity and Assets**

The information under the captions Five-Year Comparative Summary of Selected Financial Information on page 33 and Management's Discussion and Analysis on pages 1-7 of the 2010 Annual Report are incorporated herein by reference.

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The Company's dividend payout ratio for the years ended December 31, 2010, 2009 and 2008, was as follows:

| For the Years Ended December 31, | 2010 | 2009 | 2008 |
|----------------------------------|------|------|------|
|                                  | 69%  | 48%  | 60%  |

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## SCHEDULE I-A

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

| For the Years Ended December 31,   | 2010              | 2009              | 2008              |
|--|-------------------|-------------------|-------------------|
| <b>ASSETS:</b>   |                   |                   |                   |
| Cash and due from banks  | \$ 32,221         | \$ 34,069         | \$ 42,396         |
| Available for sale securities:   |                   |                   |                   |
| Taxable securities   | 264,927           | 307,332           | 304,536           |
| Non-taxable securities   | 40,581            | 34,437            | 24,394            |
| Other securities   | 4,379             | 3,373             | 3,022             |
| Held to maturity securities:   |                   |                   |                   |
| Non-taxable securities   | 2,938             | 3,265             | 3,691             |
| Other investments  | 3,926             | 4,036             | 3,889             |
| Net loans (2)  | 428,146           | 458,092           | 453,723           |
| Federal funds sold   | 4,842             | 3,227             | 5,694             |
| Other assets   | 58,446            | 57,022            | 58,240            |
| <b>TOTAL ASSETS</b>  | <b>\$ 840,406</b> | <b>\$ 904,853</b> | <b>\$ 899,585</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>                                |                   |                   |                   |
| Non-interest bearing deposits  | \$ 103,240        | \$ 101,738        | \$ 114,380        |
| Interest bearing deposits  | 408,249           | 425,809           | 443,696           |
| Total deposits   | 511,489           | 527,547           | 558,076           |
| Federal funds purchased and securities sold under agreements to repurchase | 152,000           | 217,509           | 210,049           |
| Other liabilities  | 70,044            | 54,258            | 25,851            |
| Total liabilities  | 733,533           | 799,314           | 793,976           |
| Shareholders equity  | 106,873           | 105,539           | 105,609           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>                           | <b>\$ 840,406</b> | <b>\$ 904,853</b> | <b>\$ 899,585</b> |

- (1) All averages are computed on a daily basis.
- (2) Gross loans and discounts, net of unearned income and allowance for loan losses.

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## SCHEDULE I-B

Average (1) Amount Outstanding for Major Categories of Interest Earning Assets  
And Interest Bearing Liabilities (In thousands)

| For the Years Ended December 31,   | 2010              | 2009              | 2008              |
|--|-------------------|-------------------|-------------------|
| <b>INTEREST EARNING ASSETS:</b>  |                   |                   |                   |
| Loans (2)  | \$ 436,393        | \$ 467,992        | \$ 463,505        |
| Federal funds sold   | 4,842             | 3,227             | 5,694             |
| Available for sale securities:   |                   |                   |                   |
| Taxable securities   | 264,927           | 307,332           | 304,536           |
| Non-taxable securities   | 40,581            | 34,437            | 24,394            |
| Other securities   | 4,379             | 3,373             | 3,022             |
| Held to maturity securities:   |                   |                   |                   |
| Non-taxable securities   | 2,938             | 3,265             | 3,691             |
| <b>TOTAL INTEREST EARNING ASSETS</b>                                       | <b>\$ 754,060</b> | <b>\$ 819,626</b> | <b>\$ 804,842</b> |
| <b>INTEREST BEARING LIABILITIES:</b>                                       |                   |                   |                   |
| Savings and negotiable interest bearing deposits                           | \$ 217,531        | \$ 232,916        | \$ 251,792        |
| Time deposits  | 190,718           | 192,893           | 191,904           |
| Federal funds purchased and securities sold under agreements to repurchase | 152,000           | 217,509           | 210,049           |
| Other borrowed funds   | 52,908            | 38,708            | 10,993            |
| <b>TOTAL INTEREST BEARING LIABILITIES</b>                                  | <b>\$ 613,157</b> | <b>\$ 682,026</b> | <b>\$ 664,738</b> |

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

(2) Net of unearned income. Includes nonaccrual loans



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SCHEDULE I-C  
Interest Earned or Paid on Major Categories of Interest Earning Assets  
And Interest Bearing Liabilities (In thousands)

| For the Years Ended December 31,   | 2010             | 2009             | 2008             |
|--|------------------|------------------|------------------|
| INTEREST EARNED ON:  |                  |                  |                  |
| Loans (1)  | \$ 19,687        | \$ 20,189        | \$ 26,874        |
| Federal funds sold   | 15               | 8                | 122              |
| Available for sale securities:   |                  |                  |                  |
| Taxable securities   | 8,589            | 12,840           | 15,331           |
| Non-taxable securities   | 1,903            | 1,699            | 1,433            |
| Other securities   | 26               | 17               | 148              |
| Held to maturity securities:   |                  |                  |                  |
| Non-taxable securities   | 154              | 172              | 230              |
| <b>TOTAL INTEREST EARNED (1)</b>   | <b>\$ 30,374</b> | <b>\$ 34,925</b> | <b>\$ 44,138</b> |
| INTEREST PAID ON:  |                  |                  |                  |
| Savings and negotiable interest bearing deposits                           | \$ 1,084         | \$ 1,831         | \$ 3,856         |
| Time deposits  | 2,173            | 3,135            | 6,094            |
| Federal funds purchased and securities sold under agreements to repurchase | 991              | 1,905            | 4,521            |
| Other borrowed funds   | 352              | 530              | 492              |
| <b>TOTAL INTEREST PAID</b>   | <b>\$ 4,600</b>  | <b>\$ 7,401</b>  | <b>\$ 14,963</b> |

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2010, 2009 and 2008.

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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,   | 2010      | 2009      | 2008      |
|--|-----------|-----------|-----------|
| AVERAGE RATE EARNED ON:  |           |           |           |
| Loans  | 4.51%     | 4.31%     | 5.80%     |
| Federal funds sold   | .31%      | .25%      | 2.14%     |
| Available for sale securities:   |           |           |           |
| Taxable securities   | 3.24%     | 4.18%     | 5.03%     |
| Non-taxable securities   | 4.69%     | 4.93%     | 5.87%     |
| Other securities   | .59%      | .50%      | 4.90%     |
| Held to maturity securities:   |           |           |           |
| Non-taxable securities   | 5.24%     | 5.27%     | 6.23%     |
| <br>TOTAL (weighted average rate)(1)                                       | <br>4.03% | <br>4.26% | <br>5.48% |
| AVERAGE RATE PAID ON:  |           |           |           |
| Savings and negotiable interest bearing deposits                           | .50%      | .79%      | 1.53%     |
| Time deposits  | 1.14%     | 1.63%     | 3.18%     |
| Federal funds purchased and securities sold under agreements to repurchase | .65%      | .88%      | 2.15%     |
| Other borrowed funds   | .65%      | 1.37%     | 4.48%     |
| <br>TOTAL (weighted average rate)  | <br>.75%  | <br>1.09% | <br>2.25% |

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2010, 2009 and 2008.

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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,      | 2010      | 2009      | 2008      |
|---------------------------------------|-----------|-----------|-----------|
| Total interest income (1)             | \$ 30,374 | \$ 34,925 | \$ 44,138 |
| Total interest expense                | 4,600     | 7,401     | 14,963    |
| Net interest earnings                 | \$ 25,774 | \$ 27,524 | \$ 29,175 |
| Net yield on interest earnings assets | 3.42%     | 3.36%     | 3.62%     |

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2010, 2009 and 2008.

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SCHEDULE I-F  
Analysis of Changes in Interest Income and Interest Expense  
(In thousands)

| For the Years Ended December 31,   | 2010             | 2009             | Increase<br>(Decrease) | Volume            | Rate              | Rate/Volume   |
|--|------------------|------------------|------------------------|-------------------|-------------------|---------------|
| <b>INTEREST EARNED ON:</b>   |                  |                  |                        |                   |                   |               |
| Loans (1)(2)   | \$ 19,687        | \$ 20,189        | \$ (502)               | \$ (1,363)        | \$ 924            | \$ (63)       |
| Federal funds sold   | 15               | 8                | 7                      | 4                 | 2                 | 1             |
| Available for sale securities:   |                  |                  |                        |                   |                   |               |
| Taxable securities   | 8,589            | 12,840           | (4,251)                | (1,772)           | (2,876)           | 397           |
| Non-taxable securities   | 1,903            | 1,699            | 204                    | 303               | (84)              | (15)          |
| Other securities   | 26               | 17               | 9                      | 5                 | 3                 | 1             |
| Held to maturity securities:   |                  |                  |                        |                   |                   |               |
| Non-taxable securities   | 154              | 172              | (18)                   | (17)              | (1)               |               |
| <b>TOTAL INTEREST EARNED (3)</b>   | <b>\$ 30,374</b> | <b>\$ 34,925</b> | <b>\$ (4,551)</b>      | <b>\$ (2,840)</b> | <b>\$ (2,032)</b> | <b>\$ 321</b> |
| <b>INTEREST PAID ON:</b>   |                  |                  |                        |                   |                   |               |
| Savings and negotiable interest bearing deposits                           | \$ 1,084         | \$ 1,831         | \$ (747)               | \$ (121)          | \$ (670)          | \$ 44         |
| Time deposits  | 2,173            | 3,135            | (962)                  | (35)              | (937)             | 10            |
| Federal funds purchased and securities sold under agreements to repurchase | 991              | 1,905            | (914)                  | (574)             | (487)             | 147           |
| Other borrowed funds   | 352              | 530              | (178)                  | 194               | (272)             | (100)         |
| <b>TOTAL INTEREST PAID</b>   | <b>\$ 4,600</b>  | <b>\$ 7,401</b>  | <b>\$ (2,801)</b>      | <b>\$ (536)</b>   | <b>\$ (2,366)</b> | <b>\$ 101</b> |

(1) Loan fees of \$611 and \$476 for 2010 and 2009, 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 2010 and 2009.

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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,   | 2009             | 2008             | Increase<br>(Decrease) | Volume          | Rate              | Rate/Volume     |
|--|------------------|------------------|------------------------|-----------------|-------------------|-----------------|
| <b>INTEREST EARNED ON:</b>   |                  |                  |                        |                 |                   |                 |
| Loans (1)(2)   | \$ 20,189        | \$ 26,874        | \$ (6,685)             | \$ 260          | \$ (6,878)        | \$ (67)         |
| Federal funds sold   | 8                | 122              | (114)                  | (53)            | (108)             | 47              |
| Available for sale securities:   |                  |                  |                        |                 |                   |                 |
| Taxable securities   | 12,840           | 15,331           | (2,491)                | 141             | (2,608)           | (24)            |
| Non-taxable securities   | 1,699            | 1,433            | 266                    | 590             | (229)             | (95)            |
| Other securities   | 17               | 148              | (131)                  | 17              | (132)             | (16)            |
| Held to maturity securities:   |                  |                  |                        |                 |                   |                 |
| Non-taxable securities   | 172              | 230              | (58)                   | (27)            | (36)              | 5               |
| <b>TOTAL INTEREST EARNED (3)</b>   | <b>\$ 34,925</b> | <b>\$ 44,138</b> | <b>\$ (9,213)</b>      | <b>\$ 928</b>   | <b>\$ (9,991)</b> | <b>\$ (150)</b> |
| <b>INTEREST PAID ON:</b>   |                  |                  |                        |                 |                   |                 |
| Savings and negotiable interest bearing deposits                           | \$ 1,831         | \$ 3,856         | \$ (2,025)             | \$ (289)        | \$ (1,877)        | \$ 141          |
| Time deposits  | 3,135            | 6,094            | (2,959)                | 31              | (2,975)           | (15)            |
| Federal funds purchased and securities sold under agreements to repurchase | 1,905            | 4,521            | (2,616)                | 160             | (2,681)           | (95)            |
| Other borrowed funds   | 530              | 492              | 38                     | 1,240           | (341)             | (861)           |
| <b>TOTAL INTEREST PAID</b>   | <b>\$ 7,401</b>  | <b>\$ 14,963</b> | <b>\$ (7,562)</b>      | <b>\$ 1,142</b> | <b>\$ (7,874)</b> | <b>\$ (830)</b> |

(1) Loan fees of \$476 and \$786 for 2009 and 2008, 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 2009 and 2008.

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SCHEDULE II-A  
Book Value of Securities Portfolio  
(In thousands)

| December 31,   | 2010              | 2009              | 2008              |
|--|-------------------|-------------------|-------------------|
| Available for sale securities:                                       |                   |                   |                   |
| U.S. Treasury, U.S. Government agency and Mortgage-backed securities | \$ 245,105        | \$ 270,580        | \$ 308,886        |
| States and political subdivisions                                    | 41,323            | 40,204            | 30,926            |
| Other securities   | 650               | 650               | 650               |
| <b>Total</b>   | <b>\$ 287,078</b> | <b>\$ 311,434</b> | <b>\$ 340,462</b> |
| Held to maturity securities:   |                   |                   |                   |
| States and political subdivisions                                    | \$ 1,915          | \$ 3,202          | \$ 3,394          |
| <b>Total</b>   | <b>\$ 1,915</b>   | <b>\$ 3,202</b>   | <b>\$ 3,394</b>   |

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SCHEDULE II-B  
Maturity Securities Portfolio at December 31, 2010  
And Weighted Average Yields of Such Securities

| December 31,   | Within one year |       | Maturity (In thousands, except percentage data) |       |           |       | After ten years |       |
|--|-----------------|-------|---|-------|-----------|-------|-----------------|-------|
|  | Amount          | Yield | Amount  | Yield | Amount    | Yield | Amount          | Yield |
| Available for sale securities:                                       |                 |       |   |       |           |       |                 |       |
| U.S. Treasury, U.S. Government agency and Mortgage-backed securities |                 |       |   |       |           |       |                 |       |
|  | \$10,000        | .18%  | \$85,303  | 1.76% | \$ 92,584 | 2.35% | \$57,217        | 3.17% |
| States and political subdivisions                                    |                 |       |   |       |           |       |                 |       |
|  | 1,646           | 4.01% | 9,801   | 3.75% | 15,387    | 3.92% | 14,490          | 3.88% |
| Other securities   |                 |       |   |       |           |       |                 |       |
|  |                 |       |   |       |           |       | 6,858           | 3.37% |
| Total  | \$11,646        | 3.19% | \$95,104  | 2.15% | \$107,971 | 2.69% | \$78,565        | 3.34% |
| Held to maturity securities:   |                 |       |   |       |           |       |                 |       |
| States and political subdivisions                                    |                 |       |   |       |           |       |                 |       |
|  | \$              |       | \$ 1,451  | 4.34% | \$ 464    | 4.27% | \$              |       |
| Total  | \$              |       | \$ 1,451  | 4.34% | \$ 464    | 4.27% | \$              |       |

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,   | 2010              | 2009              | 2008              | 2007              | 2006              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Real estate, construction  | \$ 91,047         | \$ 94,460         | \$ 118,455        | \$ 93,739         | \$ 24,317         |
| Real estate, mortgage  | 260,286           | 299,403           | 290,458           | 265,465           | 300,807           |
| Loans to finance agricultural production                                   | 1,122             | 1,755             | 3,178             | 2,545             | 2,502             |
| Commercial and industrial  | 43,098            | 52,250            | 43,312            | 76,267            | 57,796            |
| Loans to individuals for household, family and other consumer expenditures | 10,687            | 9,049             | 10,202            | 11,173            | 13,415            |
| Obligations of states and political subdivisions                           | 2,938             | 7,891             | 1,733             | 1,747             | 2,094             |
| All other loans  | 721               | 168               | 39                | 56                | 263               |
| <b>Total</b>   | <b>\$ 409,899</b> | <b>\$ 464,976</b> | <b>\$ 467,377</b> | <b>\$ 450,992</b> | <b>\$ 401,194</b> |

(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, 2010

| December 31,  | Maturity (In thousands) |                    |                   | Total             |
|---|-------------------------|--------------------|-------------------|-------------------|
|   | One<br>year or<br>less  | through 5<br>years | Over 5<br>years   |                   |
| Real estate, construction   | \$ 24,293               | \$ 35,754          | \$ 31,000         | \$ 91,047         |
| Real estate, mortgage   | 5,793                   | 158,342            | 96,151            | 260,286           |
| Loans to finance agricultural production                                      |                         | 1,122              |                   | 1,122             |
| Commercial and industrial   | 1,039                   | 39,542             | 2,517             | 43,098            |
| Loans to individuals for household, family and<br>other consumer expenditures | 146                     | 10,344             | 197               | 10,687            |
| Obligations of states and political subdivisions                              |                         | 2,938              |                   | 2,938             |
| All other loans   |                         | 721                |                   | 721               |
| <b>Total</b>  | <b>\$ 31,271</b>        | <b>\$ 248,763</b>  | <b>\$ 129,865</b> | <b>\$ 409,899</b> |
| Loans with pre-determined interest rates                                      | \$ 10,458               | \$ 130,179         | \$ 13,695         | \$ 154,332        |
| Loans with floating interest rates  | 20,813                  | 118,584            | 116,170           | 255,567           |
| <b>Total</b>  | <b>\$ 31,271</b>        | <b>\$ 248,763</b>  | <b>\$ 129,865</b> | <b>\$ 409,899</b> |

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SCHEDULE III-C  
Non-Performing Loans (In thousands)

| December 31,   | 2010      | 2009      | 2008      | 2007  | 2006   |
|--|-----------|-----------|-----------|-------|--------|
| Loans accounted for on a nonaccrual basis<br>(1)   | \$ 14,537 | \$ 22,005 | \$ 15,553 | \$ 45 | \$ 349 |
| Loans which are contractually past due 90<br>or more days as to interest or principal<br>payment, but are not included above | 2,961     | 4,218     | 2,340     | 1,234 | 3,295  |

(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 Notes A and C to the 2010 Annual Report to Shareholders for discussion of impaired loans.

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SCHEDULE IV-A  
Summary of Loan Loss Expenses  
(In thousands, except percentage data)

| December 31,  | 2010       | 2009       | 2008       | 2007       | 2006       |
|---|------------|------------|------------|------------|------------|
| Average amount of loans outstanding (1)(2)                          | \$ 436,393 | \$ 467,992 | \$ 463,505 | \$ 428,447 | \$ 377,172 |
| Balance of allowance for loan losses at beginning of period         | \$ 7,828   | \$ 11,114  | \$ 9,378   | \$ 10,841  | \$ 10,966  |
| Loans charged-off:  |            |            |            |            |            |
| Commercial, financial and agricultural                              | 348        | 103        | 334        | 139        | 254        |
| Consumer and other  | 7,943      | 8,977      | 950        | 545        | 475        |
| Total loans charged-off   | 8,291      | 9,080      | 1,284      | 684        | 729        |
| Recoveries of loans:  |            |            |            |            |            |
| Commercial, financial and agricultural                              | 14         |            | 19         | 23         | 147        |
| Consumer and other  | 254        | 569        | 654        | 243        | 316        |
| Total recoveries  | 268        | 569        | 673        | 266        | 463        |
| Net loans charged-off   | 8,023      | 8,511      | 611        | 418        | 266        |
| Provision for loan losses charged to operating expense              | 6,845      | 5,225      | 2,347      | (1,045)    | 141        |
| Total   | \$ 6,650   | \$ 7,828   | \$ 11,114  | \$ 9,378   | \$ 10,841  |
| Ratio of net charge-offs during period to average loans outstanding | 1.84%      | 1.82%      | .13%       | .10%       | .07%       |

(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)

| December 31,  | 2010     |                                       | 2009     |                                       | 2008      |                                       | 2007     |                                       | 2006      |                                       |
|---|----------|---------------------------------------|----------|---------------------------------------|-----------|---------------------------------------|----------|---------------------------------------|-----------|---------------------------------------|
|   | Amount   | % of<br>Loans<br>to<br>Total<br>Loans | Amount   | % of<br>Loans<br>to<br>Total<br>Loans | Amount    | % of<br>Loans<br>to<br>Total<br>Loans | Amount   | % of<br>Loans<br>to<br>Total<br>Loans | Amount    | % of<br>Loans<br>to<br>Total<br>Loans |
| Real estate,<br>construction  | \$ 2,090 | 22                                    | \$ 2,016 | 20                                    | \$ 5,277  | 25                                    | \$ 2,793 | 21                                    | \$ 1,474  | 6                                     |
| Real estate,<br>mortgage  | 3,798    | 63                                    | 4,279    | 64                                    | 3,922     | 61                                    | 3,980    | 59                                    | 6,058     | 74                                    |
| Loans to finance<br>agricultural<br>production  | 10       | 1                                     | 14       | 1                                     | 28        | 1                                     | 19       | 1                                     | 42        | 1                                     |
| Commercial and<br>industrial  | 550      | 10                                    | 1,420    | 11                                    | 1,581     | 9                                     | 2,462    | 16                                    | 3,038     | 14                                    |
| Loans to<br>individuals for<br>household, family<br>and other<br>consumer<br>expenditures | 178      | 2                                     | 99       | 2                                     | 306       | 2                                     | 122      | 1                                     | 225       | 3                                     |
| Obligations of<br>states and<br>political<br>subdivisions                                 |          | 1                                     |          | 1                                     |           | 1                                     |          | 1                                     |           | 1                                     |
| All other loans   | 24       | 1                                     |          | 1                                     |           | 1                                     | 2        | 1                                     | 4         | 1                                     |
| Total   | \$ 6,650 | 100                                   | \$ 7,828 | 100                                   | \$ 11,114 | 100                                   | \$ 9,378 | 100                                   | \$ 10,841 | 100                                   |

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SCHEDULE V  
Summary of Average Deposits and Their Yields  
(In thousands, except percentage data)

| Years Ended December 31,                                 | 2010       |       | 2009       |       | 2008       |       |
|--|------------|-------|------------|-------|------------|-------|
|  | Amount     | Rate  | Amount     | Rate  | Amount     | Rate  |
| Demand deposits in domestic offices                      | \$ 103,240 | N/A   | \$ 101,738 | N/A   | \$ 114,380 | N/A   |
| Negotiable interest bearing deposits in domestic offices | 175,240    | .58%  | 189,308    | .90%  | 205,420    | 1.71% |
| Savings deposits in domestic offices                     | 42,291     | .16%  | 43,608     | .27%  | 46,372     | .76%  |
| Time deposits in domestic offices                        | 190,718    | 1.14% | 192,893    | 1.63% | 191,904    | 3.18% |
| Total  | \$ 511,489 | .64%  | \$ 527,547 | .94%  | \$ 558,076 | 1.78% |

Certificates of deposit in amounts of \$100,000 or more (in thousands) by the amount of time remaining until maturity as of December 31, 2010, are as follows:

## Remaining maturity:

|                                 |            |
|---------------------------------|------------|
| 3 months or less                | \$ 82,678  |
| Over 3 months through 6 months  | 17,314     |
| Over 6 months through 12 months | 24,431     |
| Over 12 months                  | 10,245     |
| Total                           | \$ 134,668 |

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SCHEDULE VI  
Short Term Borrowings  
(In thousands, except percentage data)

|  | 2010      | 2009      | 2008      |
|--|-----------|-----------|-----------|
| Balance, December 31,                            | \$180,102 | \$271,431 | \$256,609 |
| Weighted average interest rate at December 31,   | .44%      | .75%      | 1.52%     |
| Maximum outstanding at any month-end during year | 245,260   | 302,971   | 256,609   |
| Average amount outstanding during year           | 187,750   | 251,259   | 213,422   |
| Weighted average interest rate                   | .62%      | .85%      | 2.14%     |

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, 2010:   | 0 - 3 Months      | 4 - 12 Months    | 1 - 5 Years       | Over 5 Years      | Total             |
|--|-------------------|------------------|-------------------|-------------------|-------------------|
| <b>ASSETS:</b>   |                   |                  |                   |                   |                   |
| Loans (1)  | \$ 254,307        | \$ 7,843         | \$ 119,517        | \$ 13,695         | \$ 395,362        |
| Available for sale securities  | 10,433            | 1,213            | 95,104            | 180,328           | 287,078           |
| Held to maturity securities  |                   |                  | 1,451             | 464               | 1,915             |
| <b>Totals</b>  | <b>\$ 264,740</b> | <b>\$ 9,056</b>  | <b>\$ 216,072</b> | <b>\$ 194,487</b> | <b>\$ 684,355</b> |
| <b>FUNDING SOURCES:</b>  |                   |                  |                   |                   |                   |
| Interest bearing deposits  | \$ 289,406        | \$ 60,173        | \$ 26,280         | \$ 3              | \$ 375,862        |
| Federal funds purchased and securities sold under agreements to repurchase | 140,102           |                  |                   |                   | 140,102           |
| Borrowings from FHLB   | 40,056            | 151              | 892               | 1,858             | 42,957            |
| <b>Totals</b>  | <b>\$ 469,564</b> | <b>\$ 60,324</b> | <b>\$ 27,172</b>  | <b>\$ 1,861</b>   | <b>\$ 558,921</b> |
| <b>REPRICING/MATURITY GAP:</b>   |                   |                  |                   |                   |                   |
| Period   | \$(204,824)       | \$ (51,268)      | \$ 188,900        | \$ 192,626        |                   |
| Cumulative   | (204,824)         | (256,092)        | (67,192)          | 125,434           |                   |
| Cumulative Gap/Total Assets  | (26.04)%          | (32.56)%         | (8.54)%           | 15.95%            |                   |

(1) Amounts stated include fixed and variable rate investments of the balance sheet that are still accruing interest. Variable rate instruments 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.



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**Liquidity**

The information included in Management's Discussion and Analysis at page 5 in the 2010 Annual Report to Shareholders is incorporated herein by reference.

**Capital Resources**

The information included in Note K Shareholders' Equity in the 2010 Annual Report to Shareholders is incorporated herein by reference.

**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 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, 2010, approximately 86% 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

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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, 2010, these exposures were approximately \$47,908,000 and \$44,343,000 or 12% and 11%, 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 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 primary trade area includes four of the six counties in south Mississippi. 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 Mississippi Gulf Coast economy 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.

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**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 2010. On February 18, 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 2011 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. The Emergency Economic Stabilization Act of 2008 ( 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. The Dodd-Frank Wall Street Reform and Consumer Protection Act ( 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 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.

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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 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (the USA PATRIOT Act), the Bank Secrecy Act, and rules and regulations of 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 advances and changes in technology could significantly affect business.

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. In addition, the Company's operations are susceptible to negative effects from computer system failures, communication and energy disruption and unethical individuals with technological ability to cause disruptions or failures of data processing systems.

**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

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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 16 business locations, including the Main Office, which is located at 152 Lameuse Street in Biloxi, MS, 39530. All such properties 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 |

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|                       |  |
|-----------------------|--|
| 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**

The information included in Note N to the Consolidated Financial Statements included in the 2010 Annual Report to Shareholders is incorporated herein by reference.

**ITEM 4 RESERVED**

PART II

**ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

At December 31, 2010, there were 544 holders of the common stock of the Company. The information provided on page 34 of the 2010 Annual Report to Shareholders is incorporated herein by reference.

**ITEM 6 SELECTED FINANCIAL DATA**

The information under the caption Five Year Comparative Summary of Selected Financial Information on page 33 of the 2010 Annual Report to Shareholders is incorporated herein by reference.

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

The information under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 1-7 of the 2010 Annual Report to Shareholders is incorporated herein by reference.

The Company's long-term contractual obligations relate to its borrowings from the Federal Home Loan Bank and the maturities of certificates of deposits. Information relating the maturity of these

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obligations is found under Management's Discussion and Analysis of Financial Condition and Results of Operations on page 7 of the 2010 Annual Report to Shareholders and is incorporated by reference and in Notes F and H on pages 20-22 of the 2010 Annual Report to Shareholders and is incorporated by reference.

**ITEM 7a QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The information under the caption Quantitative and Qualitative Disclosures about Market Risk on pages 6-7 of the 2010 Annual Report to Shareholders is incorporated herein by reference.

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

The following consolidated financial statements of the Company and consolidated subsidiaries and the independent auditors' report appearing on pages 8-32 of the 2010 Annual Report to Shareholders are incorporated herein by reference:

Consolidated Statements of Condition on page 8

Consolidated Statements of Income on page 9

Consolidated Statements of Shareholders' Equity on pages 10-11

Consolidated Statements of Cash Flows on page 12

Notes to Consolidated Financial Statements on pages 13-31

Report of Independent Registered Public Accounting Firm on page 32

**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, 2010, 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, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**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, 2010, using the criteria set forth in *Internal Control - Integrated Framework* 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, 2010.

Chevis C. Swetman  
Chairman, President and Chief Executive Officer  
March 4, 2011

Lauri A. Wood  
Chief Financial Officer  
March 4, 2011

**ITEM 9b OTHER INFORMATION**

None.

**PART III**

**ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information in Sections II, III, VII, VIII and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2011, which was filed by the Company in definitive form with the Commission on March 16, 2011, 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 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.



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**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 27, 2011, which was filed by the Company in definitive form with the Commission on March 16, 2011, is incorporated herein by reference.

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information in Sections IV and V contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2011, which was filed by the Company in definitive form with the Commission on March 16, 2011, is incorporated herein by reference.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information in Sections II, IV, V, VI and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2011, which was filed by the Company in definitive form with the Commission on March 16, 2011, is incorporated herein by reference.

**ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information in Section XII contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2011, which was filed by the Company in definitive form with the Commission on March 16, 2011, 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.

(a) 3. Index of Exhibits:

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| Description   | Incorporated by<br>Reference to<br>Registration or<br>File Number | Form of<br>Report | Date of<br>Report | Exhibit<br>Number<br>in<br>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                              |
| (13.1) Annual Report to Shareholders for year ended December 31, 2010 (A)                                       |   |                   |                   |                                   |
| (13.2) Summary Report to Shareholders for year ended December 31, 2010 (A)                                      |   |                   |                   |                                   |
| (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, LLP *                    |   |                   |                   |                                   |
| (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\*

(A) Furnished herewith for the information of the Commission only and not deemed filed except for those portions which are specifically incorporated herein.

\* Filed Herewith.

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SIGNATURES

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

PEOPLES FINANCIAL  
CORPORATION  
(Registrant)

Date: March 16, 2011

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 16, 2011

Chevis C. Swetman, Chairman, President  
and CEO  
(principal executive officer)

BY: /s/ Drew Allen

Date: March 16, 2011

Drew Allen, Director

BY: /s/ Dan Magruder

Date: March 16, 2011

Dan Magruder, Director

BY: /s/ Rex E. Kelly

Date: March 16, 2011

Rex E. Kelly, Director

BY:

Date: March 16, 2011

Lyle M. Page, Director

BY: /s/ Lauri A. Wood

Date: March 16, 2011

Lauri A. Wood, Chief Financial Officer  
(principal financial and accounting  
officer)