

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001  
Commission File Number 1-13253

THE PEOPLES HOLDING COMPANY

-----  
(Exact name of the registrant as specified in its charter)

MISSISSIPPI 64-0676974

-----  
(State of Incorporation) (I.R.S. Employer Identification Number)

209 Troy Street, P. O. Box 709, Tupelo, Mississippi 38802-0709

-----  
(Address of principal executive offices)

Registrant's telephone number including area code 601-680-1001

Indicate by check 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, and (2) has been subject to such filing requirements  
for the past 90 days.

YES ☒ NO ☐

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as to the latest practicable date.

Common stock, \$5 Par Value, 6,043,124 shares outstanding  
as of May 10, 2001

THE PEOPLES HOLDING COMPANY  
INDEX

PART 1. FINANCIAL INFORMATION

PAGE

Item 1.

Condensed Consolidated Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets -

March 31, 2001 and December 31, 2000..... 3

Condensed Consolidated Statements of Income -

Three Months Ended March 31, 2001 and 2000..... 4

Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2001 and 2000.....	5
--	---

Notes to Condensed Consolidated Financial Statements.....	6
---	---

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations.....	8
---	---

Item 3.

Quantitative and Qualitative Disclosures About Market Risk.....	11
--	----

PART II. OTHER INFORMATION

Item 1.

Legal Proceedings.....	11
------------------------	----

Item 5.

Other Information.....	11
------------------------	----

Item 6.(b)

Exhibits and Reports on Form 8-K.....	11
---------------------------------------	----

Signatures.....	12
-----------------	----

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

	MARCH 31 2001 ----- (Unaudited)	DECEMBER 31 2000 ----- (Note 1)
<b>Assets</b>		
Cash and due from banks .....	\$ 41,227	\$ 27,676
Interest-bearing balances with banks .....	16,222	29,141
	-----	-----
Cash and Cash Equivalents ...	57,449	56,817
Securities available-for-sale .....	302,107	192,916
Securities held-to-maturity (fair value - \$0 and \$85,981 at March 31, 2001 and December 31, 2000, respectively) .....		85,658
Loans, net of unearned income .....	813,956	815,854
Allowance for loan losses .....	(11,067)	(10,536)
	-----	-----
Net Loans .....	802,889	805,318
Premises and equipment, net .....	30,152	30,105
Other assets .....	39,672	41,126
	-----	-----
Total Assets .....	\$ 1,232,269	\$ 1,211,940
	=====	=====
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing .....	\$ 147,536	\$ 131,718
Interest-bearing .....	911,757	914,887
	-----	-----
Total Deposits .....	1,059,293	1,046,605
Treasury tax and loan note account .....	7,329	4,603
Advances from the Federal Home Loan Bank .	19,459	19,946
Other liabilities .....	20,352	19,125
	-----	-----
Total Liabilities .....	1,106,433	1,090,279
<b>Shareholders' Equity</b>		
Common Stock, \$5 par value - 15,000,000 shares authorized, 6,212,284 shares issued; 6,043,124 and 6,056,899 shares outstanding at March 31, 2001 and December 31, 2000, respectively .....	31,061	31,061
Treasury stock, at cost .....	(3,949)	(3,688)
Additional paid-in capital .....	39,931	39,931
Retained earnings .....	56,338	54,423
Accumulated other comprehensive income ...	2,455	(66)
	-----	-----
Total Shareholders' Equity ..	125,836	121,661
	-----	-----
Total Liabilities and Shareholders' Equity .....	\$ 1,232,269	\$ 1,211,940
	=====	=====

See Notes to Condensed Consolidated Financial Statements

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except share data)

	THREE MONTHS ENDED MARCH 31	
	2001	2000
	----	----
	(Unaudited)	
Interest Income		
Loans .....	\$ 18,180	\$ 17,523
Securities:		
Taxable .....	3,294	2,815
Tax-exempt .....	1,015	1,049
Other .....	184	217
	-----	-----
Total Interest Income .....	22,673	21,604
Interest Expense		
Deposits .....	11,220	9,573
Borrowings .....	371	466
	-----	-----
Total Interest Expense .....	11,591	10,039
	-----	-----
Net Interest Income .....	11,082	11,565
Provision for loan losses .....	1,125	989
	-----	-----
Net Interest Income After Provision for Loan Losses ..	9,957	10,576
Noninterest Income		
Service charges on deposit accounts ..	2,792	2,433
Fees and commissions .....	1,788	932
Trust revenue .....	265	267
Securities gains (losses).....	43	
Other .....	842	751
	-----	-----
Total Noninterest Income ...	5,730	4,383
Noninterest Expense		
Salaries and employee benefits .....	6,077	5,496
Data processing .....	858	834
Net occupancy .....	828	733
Equipment .....	729	700
Other .....	2,563	2,655
	-----	-----
Total Noninterest Expense ..	11,055	10,418
	-----	-----
Income before income taxes .....	4,632	4,541
Income taxes .....	1,330	1,273
	-----	-----
Net Income .....	\$ 3,302	\$ 3,268
	=====	=====
Basic and diluted earnings per share .....	\$ 0.55	\$ 0.53
	=====	=====
Weighted average shares outstanding .....	6,048,805	6,204,784
	=====	=====

See Notes to Condensed Consolidated Financial Statements

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands, except share data)

	THREE MONTHS ENDED MARCH 31	
	2001	2000
	----	----
	(Unaudited)	
Operating Activities		
Net Cash Provided by Operating Activities .....	\$ 6,720	\$ 3,315
Investing Activities		
Purchases of securities available-for-sale .....	(40,425)	(15,832)
Proceeds from sales of securities available-for-sale .....	5,000	
Proceeds from calls/maturities of securities available-for-sale .....	15,951	3,651
Proceeds from calls/maturities of securities held-to-maturity .....		1,106
Net increase in loans .....	(17,687)	(24,087)
Proceeds from sales of loans .....	18,523	6,027
Proceeds from sales of premises and equipment .....		71
Purchases of premises and equipment .....	(728)	(1,071)
	-----	-----
Net Cash Used in Investing Activities .....	(19,366)	(30,135)
Financing Activities		
Net increase in noninterest-bearing deposits .....	15,818	8,632
Net increase (decrease) in interest-bearing deposits .....	(3,130)	56,612
Net increase (decrease) in short-term borrowings .....	2,726	(5,155)
Proceeds from other borrowings .....		570
Repayments of other borrowings .....	(487)	(20,590)
Acquisition of treasury stock .....	(261)	
Cash dividends paid .....	(1,388)	(1,365)
	-----	-----
Net Cash Provided by Financing Activities .....	13,278	38,704
	-----	-----
Increase in Cash and Cash Equivalents .....	632	11,884
Cash and Cash Equivalents at beginning of period .....	56,817	43,871
	-----	-----
Cash and Cash Equivalents at end of period .....	\$ 57,449	\$ 55,755
	=====	=====
Supplemental Disclosures:		
Non-cash transactions:		
Transfer of loans to other real estate .....	\$ 608	\$ 309
	=====	=====

See Notes to Condensed Consolidated Financial Statements

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
MARCH 31, 2001  
(in thousands, except share data)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

For further information, refer to the consolidated financial statements and footnotes thereto included in The Peoples Holding Company and Subsidiary's (collectively, the Company) annual report on Form 10-K for the year ended December 31, 2000.

Note 2 Comprehensive Income

For the three month periods ended March 31, 2001 and 2000, total comprehensive income amounted to \$5,823 and \$2,429, respectively. Total comprehensive income consists of net income and the change in the unrealized gain (loss) on securities available for sale.

Note 3 Segment Reporting

The operating segments for the three months ended March 31, 2001 are the same as prior years. However, the Company changed its internal reporting mechanism to more closely match expenses with the revenues generated by each segment. Accordingly, prior periods' segment information has been adjusted to reflect the current method of management reporting as though it had been in place for all periods presented.

Segment information for the three months ended March 31, 2001 and 2000, is presented below.

Three Months Ended March 31, 2001

	Branches	Specialized Products	All Other	Total
Net interest income .....	\$ 10,473	\$ 356	\$ 253	\$ 11,082
Provision for loan loss ....	1,118	0	7	1,125
	-----	-----	-----	-----
Net interest income after provision for loan loss ..	9,355	356	246	9,957
Non-interest income .....	3,738	1,859	133	5,730
Non-interest expense .....	7,406	1,712	1,937	11,055
	-----	-----	-----	-----
Income before income taxes .	5,687	503	(1,558)	4,632
Income taxes .....	0	53	1,277	1,330
	-----	-----	-----	-----
Net income .....	\$ 5,687	\$ 450	\$ (2,835)	\$ 3,302
	=====	=====	=====	=====

Three Months Ended March 31, 2000

	Branches	Specialized Products	All Other	Total
	-----	-----	-----	-----
Net interest income .....	\$ 10,551	\$ 629	\$ 385	\$ 11,565
Provision for loan loss ....	890	20	79	989
	-----	-----	-----	-----
Net interest income after provision for loan loss ..	9,661	609	306	10,576
Non-interest income .....	3,238	1,042	103	4,383
Non-interest expense .....	6,957	1,049	2,412	10,418
	-----	-----	-----	-----
Income before income taxes .	5,942	602	(2,003)	4,541
Income taxes .....	0	(8)	1,281	1,273
	-----	-----	-----	-----
Net income .....	\$ 5,942	\$ 610	\$ (3,284)	\$ 3,268
	=====	=====	=====	=====

Note 4 Other Accounting Pronouncements

On January 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." As permitted with the adoption of this Statement, the Company transferred its held-to-maturity securities to securities available-for-sale on January 1, 2001. At the time of the transfer, the held-to-maturity securities had a carrying value of \$85,658 and a market value of \$85,981. The adoption of the new Statement did not have a material impact on the earnings or the financial position of the Company.

Note 5 Subsequent Events

On April 16, 2001, the Company filed Form SC TO-I with the Securities and Exchange Commission announcing a tender offer to repurchase up to 604,312 shares of its common stock at \$23.00 per share. The offer is scheduled to expire at 5:00 p.m., New York City time, on May 15, 2001, unless extended by the Company.

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
(in thousands, except share data)

This Form 10-Q may contain, or incorporate by reference, statements which may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Prospective investors are cautioned that any such forward-looking statements are not guarantees for future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include significant fluctuations in interest rates, inflation, economic recession, significant changes in the federal and state legal and regulatory environment, significant underperformance in the Company's portfolio of outstanding loans, and competition in the Company's markets. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

#### Financial Condition

Total assets of The Peoples Holding Company grew from \$1,211,940 on December 31, 2000, to \$1,232,269 on March 31, 2001, or 1.68% for the three month period. Most of the growth in assets occurred in the investment portfolio, which increased from \$278,574 on December 31, 2000, to \$302,107 on March 31, 2001. As permitted with the adoption of Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," all held-to-maturity securities were transferred to the available-for-sale portfolio at the beginning of the year which improved the Company's liquidity and provided more flexibility in asset management.

Total deposits for the first three months of 2001 grew from \$1,046,605 on December 31, 2000 to \$1,059,293 on March 31, 2001, or an increase of 1.21%, with the majority of growth in noninterest bearing deposits.

The equity capital to total assets ratios were 10.21% and 10.04% at March 31, 2001 and December 31, 2000, respectively. Capital increased \$4,175 or 3.43% from December 31, 2000 to March 31, 2001. Net income and changes in unrealized portfolio gains due to recent decreases in interest rates have contributed to the growth in capital. Cash dividends declared increased from \$.22 per share in the fourth quarter of 2000 to \$.23 per share in the first quarter of 2001.

#### Results of Operations

The Company's net income for the three month period ended March 31, 2001, was \$3,302, representing an increase of \$34, or 1.04% over net income for the three month period ended March 31, 2000, which totaled \$3,268. The increase in net income for the three month period ended March 31, 2001, compared to the same period of 2000 resulted from usual and customary deposit gathering and lending operations and increases in noninterest income for specialized products. The annualized return on average assets for the three month periods ending March 31, 2001 and 2000, was 1.06% and 1.11%, respectively.



Net interest income, the difference between interest earned on assets and the cost of interest-bearing liabilities, is the largest component of the Company's net income. The primary concerns in managing net interest income are the mix and the repricing of rate-sensitive assets and liabilities. While the Company has maintained steady growth in its asset base, net interest income has declined due in part to a shift within the mix of assets from loans to investments. Net interest income has also been adversely impacted by the volume of time deposits, a higher cost funding source, which represented approximately 55% of total average deposits for the three month period ended March 31, 2001, compared to approximately 51% for the same period during 2000. Net interest income for the three month periods ending March 31, 2001 and 2000 was \$11,082 and \$11,565, respectively, while earning assets for the same periods averaged \$1,119,020 and \$1,093,873 respectively. Recent changes in the pricing environment coupled with the pricing strategies enacted by management have stabilized the Company's net interest margin. Although net interest margin was lower than the 4.55% reported for the first quarter of 2000, it was 4.30% for the first quarter of 2001, up from 4.29% for the fourth quarter of 2000.

The provision for loan losses charged to operating expense is an amount which, in the judgement of management, is necessary to maintain the allowance for loan losses at a level that is adequate to meet the inherent risks of losses on the Company's current portfolio of loans. The appropriate level of the allowance is based on a quarterly analysis of the loan portfolio including consideration of such factors as the risk rating of individual credits, size and diversity of the portfolio, economic conditions, prior loss experience, and the results of periodic credit reviews by internal loan review and regulators. The provision for loan losses totaled \$1,125 and \$989 for the three month periods ending March 31, 2001 and 2000, respectively. The allowance for loan losses as a percentage of loans outstanding was 1.36% and 1.29% as of March 31, 2001 and December 31, 2000, respectively. Net charge-offs to average loans was .07% and .11% for the three month periods ending March 31, 2001 and 2000, respectively. Net charge-offs for the first quarter of 2000 were higher than the total reported for the first quarter of 2001 primarily because of a group of automobile loans that were isolated to a specific location.

Noninterest income, excluding gains from the sales of securities, was \$5,687 for the three month period ending March 31, 2001, compared to \$4,383 for the same period in 2000, or an increase of 29.75%. While the Company has continued its emphasis on sales of specialized products and services, the increase in noninterest income between 2001 and 2000 is due primarily to fees and commissions associated with the expansion of The Peoples Insurance Agency, Inc., which occurred with the acquisitions of The Southern Insurance Group and The Dominion Insurance Agency during the second and fourth quarters of 2000, respectively. Excluding the additional fee income related to the insurance expansions, non-sufficient fund fees accounted for the majority of the increase in service charges while improvements in mortgage loan fees, loan document preparation fees, PC banking fees, and cash management fees boosted fees and commissions.

Noninterest expense was \$11,055 for the three month period ended March 31, 2001, compared to \$10,418 for the same period in 2000, or an increase of 6.11%. Excluding the impact of the acquisition of the insurance companies, the Company experienced negligible growth in all noninterest expense categories.

Income tax expense was \$1,330 for the three month period ended March 31, 2001, (with an effective tax rate of 28.71%) compared to \$1,273 (with an effective tax rate of 28.03%) for the same period in 2000. The Company continues to invest in assets whose earnings are given favorable tax treatment.

## Liquidity Risk

Liquidity management is the ability to meet the cash flow requirements of customers who may be either depositors wishing to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs.

Core deposits are a major source of funds used to meet cash flow needs. Maintaining the ability to acquire these funds as needed in a variety of money markets is a key to assuring liquidity. When evaluating the movement of these funds even during times of large interest rate changes, it is apparent that the Company continues to attract deposits that can be used to meet cash flow needs. Management continues to monitor the liquidity and potentially volatile liabilities ratios to ensure compliance with Asset-Liability Committee targets. These targets are set to ensure that the Company meets the liquidity requirements deemed necessary by management and regulators.

Another source available for meeting the Company's liquidity needs is available-for-sale securities. The available-for-sale portfolio is composed of securities with a readily available market that can be used to convert to cash if the need arises. In addition, the Company maintains a federal funds position that provides day-to-day funds to meet liquidity needs and may also obtain advances from the Federal Home Loan Bank (FHLB) or the treasury tax and loan note account. Historically, the Company has not relied upon these sources to meet long-term liquidity needs. Funds obtained from the FHLB are used primarily to match mortgage loan originations in order to minimize interest rate risk, but may be used to provide short-term funding.

On April 16, 2001, the Company announced a tender offer to repurchase up to 604,312 shares of its common stock at \$23.00 per share. The Company expects to fund any repurchases under this tender offer from cash and the liquidation of short-term investments.

## Capital Resources

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum balances and ratios. All banks are required to have core capital (Tier I) of at least 4% of risk-weighted assets (as defined), 4% of average assets (as defined), and total capital of 8% of risk-weighted assets (as defined). As of March 31, 2001, the Bank met all capital adequacy requirements to which it is subject.

As of March 31, 2001, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios of 10%, 6%, and 5%, respectively. In the opinion of management, there are no conditions or events since the last notification that have changed the institution's category. The Bank's actual capital amounts and applicable ratios are as follows:

	Actual Amount ----- (000)	Ratio -----
As of March 31, 2001		
Total Capital .....	\$ 124,182	15.4%
(to Risk Weighted Assets)		
Tier I Capital .....	\$ 114,079	14.1%
(to Risk Weighted Assets)		
Tier I Capital .....	\$ 114,079	9.4%
(to Adjusted Average Assets)		
As of December 31, 2000		
Total Capital .....	\$ 122,165	15.1%
(to Risk Weighted Assets)		
Tier I Capital .....	\$ 112,022	13.8%
(to Risk Weighted Assets)		
Tier I Capital .....	\$ 112,022	9.4%
(to Adjusted Average Assets)		

Management recognizes the importance of maintaining a strong capital base. As the above ratios indicate, the Company exceeds the requirements for a well capitalized bank.

Book value per share was \$20.82 and \$20.09 at March 31, 2001 and December 31, 2000, respectively. Quarterly cash dividends were \$.23 per share during the first quarter of 2001, up from \$.22 per share during the fourth quarter of 2000.

The Company's capital policy is to evaluate future needs based on growth, earnings trends and anticipated acquisitions.

#### THE PEOPLES HOLDING COMPANY AND SUBSIDIARY QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to our disclosure on quantitative and qualitative disclosures about market risk since December 31, 2000. For additional information, see the Company's Form 10-K for the year ended December 31, 2000.

#### Part II. OTHER INFORMATION

##### Item 1. Legal Proceedings

There have been no material proceedings against the Company during the quarter ending March 31, 2001.

##### Item 5. Other Information

On April 16, 2001, the Company filed Form SC T0-I with the Securities and Exchange Commission announcing a tender offer to repurchase up to 604,312 shares of its common stock at \$23.00 per share. The offer is scheduled to expire at 5:00 p.m., New York City time, on May 15, 2001, unless extended by the Company. For further information, contact The Peoples Bank & Trust Company, the information agent for the offer, at 1-800-492-0365 or refer to the Company's Form SC T0-I filed on April 16, 2001.

##### Item 6.(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the first quarter of 2001.

SIGNATURES

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

THE PEOPLES HOLDING COMPANY

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Registrant

DATE: May 14, 2001

/s/ E. Robinson McGraw

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E. Robinson McGraw  
President & Chief Executive Officer