

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 quarter ended March 31, 1998
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 38801

(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, 5,859,472 shares outstanding
as of May 12, 1998

THE PEOPLES HOLDING COMPANY
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THE PEOPLES HOLDING COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	MARCH 31 1998 ----- (Unaudited)	DECEMBER 31 1997 ----- (Note 1)
Assets		
Cash and due from banks	\$ 38,276,988	\$ 32,932,007
Federal funds sold	14,000,000	6,000,000
	-----	-----
Cash and cash equivalents	52,276,988	38,932,007
Interest bearing balances with banks	13,337,005	14,972,568
Securities held-to-maturity (market value-\$65,928,847 and \$60,555,766 at March 31, 1998 and December 31, 1997, respectively)	65,223,876	59,893,375
Securities available-for-sale (amortized cost-\$216,708,174 and \$187,836,120 at March 31, 1998 and December 31, 1997, respectively)	217,835,216	188,738,354
Loans, net of unearned income	628,181,893	627,945,380
Allowance for loan losses	(9,145,895)	(9,103,828)
	-----	-----
Net Loans	619,035,998	618,841,552
Premises and equipment	24,083,237	23,492,657
Other assets	26,095,935	26,184,367
	-----	-----
Total Assets	\$ 1,017,888,255 =====	\$ 971,054,880 =====
Liabilities		
Deposits:		
Noninterest-bearing	\$ 121,317,519	\$ 120,828,654
Certificates of deposit exceeding \$100,000	108,150,650	106,952,104
Interest bearing	649,473,954	607,133,427
	-----	-----
Total Deposits	878,942,123	834,914,185
Treasury tax and loan note account	7,415,868	6,101,276
Borrowings	17,876,724	18,454,080
Other liabilities	13,532,379	13,434,422
	-----	-----
Total Liabilities	\$ 917,767,094	\$ 872,903,963
Shareholders' Equity		
Common Stock, \$5 par value-7,500,000 shares authorized, 5,859,472 shares issued and outstanding at March 31, 1998 and December 31, 1997, respectively ..	29,297,360	29,297,360
Additional paid-in capital	39,875,796	39,875,796
Unrealized gains on securities, available-for-sale, net of tax.....	706,655	565,708
Retained earnings	30,241,350	28,412,053
	-----	-----
Total Shareholders' Equity ...	100,121,161	98,150,917
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 1,017,888,255 =====	\$ 971,054,880 =====

See Notes to Consolidated Financial Statements

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31

	1998 ----	1997 ----
	(Unaudited)	
Interest Income		
Loans	\$ 14,541,502	\$ 13,129,673
Securities:		
Taxable	3,140,091	3,203,063
Tax-exempt	822,381	719,164
Other	377,733	206,791
	-----	-----
Total interest income	18,881,707	17,258,691
Interest Expense		
Time deposits exceeding \$100,000	1,448,496	867,639
Other deposits	6,733,000	6,266,525
Borrowings	346,271	299,077
	-----	-----
Total interest expense	8,527,767	7,433,241
	-----	-----
Net interest income	10,353,940	9,825,450
Provision for loan losses	640,668	570,000
	-----	-----
Net interest income after provision for loan losses ..	9,713,272	9,255,450
Noninterest income:		
Service charges on deposit accounts...	1,697,268	1,598,356
Fees and commission	445,110	440,016
Trust revenue	180,000	149,700
Gains on sale of securities and loans.	230,039	90,655
Other	839,191	571,700
	-----	-----
Total noninterest income ...	3,391,608	2,850,427
Noninterest expense:		
Salaries and employee benefits	5,101,579	4,655,620
Net occupancy	643,821	684,009
Equipment	497,016	445,062
Other	2,842,645	2,567,258
	-----	-----
Total noninterest expense...	\$ 9,085,061	\$ 8,351,949
	-----	-----
Income before income taxes	4,019,819	3,753,928
Income taxes	1,165,094	1,152,762
	-----	-----
Net income	\$ 2,854,725	\$ 2,601,166
	=====	=====
Basic and diluted earnings per share	\$.49	\$.44
	=====	=====
Weighted average shares outstanding	5,859,472	5,859,472
	=====	=====

See Notes to Consolidated Financial Statements.

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31 1998 ----	1997 ----
	(Unaudited)	
Operating Activities		
Net income	\$ 2,854,725	\$ 2,601,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	640,668	570,000
Provision for depreciation and amortization	635,034	618,633
Net amortization (accretion) of securities premiums/discounts	43,054	166,494
Gains on sales/calls of securities	(230,039)	(90,655)
Increase in other liabilities	97,957	938,418
Deferred income taxes (credits).....	164,136	(98,387)
Losses on sales of premises and equipment	38,187	103,693
Increase in other assets	(61,167)	(333,169)
	-----	-----
Net Cash Provided by Operating Activities	4,182,555	4,476,193
Investing Activities		
Net decrease (increase) in balances with other banks	1,635,563	(480,555)
Proceeds from maturities/calls of securities held-to-maturity	579,400	342,000
Proceeds from maturities/calls of securities available-for-sale	12,444,774	28,706,824
Proceeds from sales of securities available-for-sale	0	6,090,655
Purchases of securities held-to-maturity	(5,895,046)	(462,000)
Purchases of securities available-for-sale	(41,374,737)	(55,541,198)
Net increase in loans	(22,414,244)	(14,421,919)
Proceeds from sale of loans	21,555,019	5,512,496
Proceeds from sales of premises and equipment	97,392	153,406
Purchases of premises and equipment ...	(1,205,441)	(1,135,786)
	-----	-----
Net Cash Used in Investing Activities	(34,577,320)	(31,236,077)
Financing Activities		
Net increase in noninterest-bearing deposits	488,865	4,578,491
Net increase in other interest-bearing deposits	43,539,073	12,103,779
Net increase in treasury tax and loan note account	1,314,592	1,663,573
Increase (decrease) in borrowings	(577,356)	4,519,924
Cash dividends paid	(1,025,428)	(781,335)
	-----	-----
Net Cash Provided by Financing Activities	43,739,746	22,084,432
	-----	-----
Decrease in Cash and Cash Equivalents	13,344,981	(4,675,452)
	-----	-----
Cash and cash equivalents at beginning of period	38,932,007	46,874,641
	-----	-----
Cash and cash equivalents at end of period ..	\$ 52,276,988	\$ 42,199,189
	=====	=====
Non-cash transactions:		
Transfer of loans to other real estate	\$ 254,150	\$ 137,542
	=====	=====

See Notes to Consolidated Financial Statements

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The consolidated balance sheet at December 31, 1997 has been derived from the audited consolidated financial statements at that date. The accompanying unaudited consolidated financial statements reflect all adjustments (consisting only of normally recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The statements should be read in conjunction with the summary of accounting policies and notes to consolidated financial statements included in the Registrant's annual report for the year ended December 31, 1997. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the rules of the Securities and Exchange Commission.

Note 2 Comprehensive Income

As of January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or shareholders' equity. SFAS No. 130 requires unrealized gains or losses on the Company's available-for-sale securities, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

During the first quarter of 1998 and 1997, total comprehensive income amounted to \$2,995,672 and \$1,696,555.

Note 3 Other Accounting Pronouncements

In February 1998, SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits," was issued, superseding the disclosure requirements of SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 132 is effective for fiscal years beginning after December 15, 1997, and therefore the Company will adopt the new requirements in its 1998 annual report. SFAS No. 132 suggests a parallel format for presenting information about pensions and other postretirement benefits, but the information disclosed is not substantially different than what is required under current guidance. The Company does not anticipate that the adoption of this statement will have a significant impact on its consolidated financial condition or results of operations.

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

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 21 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

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Total assets of The Peoples Holding Company grew from \$971,054,880 on December 31, 1997, to \$1,017,888,255 on March 31, 1998, or 4.82% for the three month period. Total securities increased from \$248,631,729 on December 31, 1997, to \$283,059,092 on March 31, 1998, with the majority of growth in Mortgage-backed securities. Loans, net of unearned income, increased \$236,513 or .04%.

Total deposits for the first three months of 1998 grew from \$834,914,185 at December 31, 1997 to \$878,942,123 at March 31, 1998, or an increase of 5.27%, with the majority of growth in public fund interest bearing demand deposits.

The equity capital to total assets ratio was 9.84% and 10.11% for March 31, 1998 and December 31, 1997, respectively. The decrease is mainly due to the significant growth in assets funded primarily by deposits. Capital grew 2.01% from December 31, 1997 to March 31, 1998 due to record earnings.

Results of Operations-Quarter Ended March 31, 1998 compared to 1997

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The Company's net income for the three month period ending March 31, 1998 was \$2,854,725 compared to \$2,601,166 from the first quarter of 1997. The increase in net income for the first quarter of 1998 compared to 1997 is the result of customary and usual deposit gathering and lending operations. The first quarter for 1998 and 1997 experienced the same annualized return of average assets of 1.16%.

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 items of concern in managing net interest income are the mix and maturity balance between interest-sensitive assets and related liabilities. Net interest income was \$10,353,940 and \$9,825,450 for the three months ending March 31, 1998 and 1997, respectively. Earning assets averaged \$916.6 million for first quarter ending March 31, 1998 compared to \$839.0 million for the same period in 1997. The net interest margin was 4.82% and 4.96% for the three months ending March 31, 1998 and 1997, respectively. The decrease in net interest margin is due to increases in the volume and rate of costing liabilities and the subsequent investment of those funds into short-term assets instead of higher yielding long-term assets. Although net interest margin decreased, net interest income increased.

The provision for loan losses 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 absorb inherent 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 \$640,668 and \$570,000 for quarters ending March 31, 1998 and 1997, respectively. The allowance for loan losses as a percentage of net loans outstanding was 1.46% and 1.45% as of March 31, 1998 and December 31, 1997. Net charge-offs to average loans was .10% for each three month period ending March 31, 1998 and 1997.

Noninterest income, excluding gains from the sales of securities and loans, was \$3,161,569 for the quarter ending March 31, 1998, compared to \$2,759,772 for same period in 1997, or a increase of 14.56%. Service charges increased \$98,912 due to the growth in deposits. The increase in other noninterest income was due in part to increases in revenue from fees charged on credit card loans, mortgage loans, and deposit accounts of the Company.

Noninterest expenses were \$9,085,061 for the quarter ending March 31, 1998, compared to \$8,351,949 for the same period in 1997, or an increase of 8.78%. Salaries and employee benefits increased 9.58% due to an increase in personnel to support growth and new facilities. The increase in other noninterest expenses of approximately \$275,000 is due to increases in computer processing costs, courier costs, and supply costs related to the growth in deposits.

Income tax expense was \$1,165,094 for the three months ending March 31, 1998, compared to \$1,152,762 for the same period in 1997. The increase is due to increased profits for the first quarter of 1998 compared to 1997. 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. The Company has worked toward lowering its dependence on other public funds. This has added more stability to the Company's core deposit base reducing the dependence on highly liquid assets.

Approximately 88% of the Company's deposits are composed of accounts with balances less than \$100,000. The Company maintains targets for both volatile dependency and liquidity. At March 31, 1998, these targets were well within the guidelines set by the Asset-Liability Committee.

Other sources available for meeting the Company's liquidity needs include 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 or the treasury tax and loan note account.

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 amounts 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, 1998, the Bank has met all capital adequacy requirements to which it is subject.

As of March 31, 1998, 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	Ratio
	-----	-----
	(000)	
As of March 31, 1998		
Total Capital	\$101,319	15.6%
(to Risk Weighted Assets)		
Tier I Capital	\$ 93,215	14.4%
(to Risk Weighted Assets)		
Tier I Capital	\$ 93,215	9.4%
(to Average Assets)		
As of December 31, 1997		
Total Capital	\$ 99,223	15.7%
(to Risk Weighted Assets)		
Tier I Capital	\$ 91,315	14.5%
(to Risk Weighted Assets)		
Tier I Capital	\$ 91,315	9.9%
(to 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 \$17.09 and \$16.75 at March 31, 1998 and December 31, 1997, respectively. Quarterly cash dividends were raised to \$.175 per share, up from \$.133 per share during the first quarter of 1997.

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

There were no material proceedings pending at March 31 1998, against the registrant or its subsidiary.

Item 6(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the first quarter of 1998.

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

Registrant

DATE: May 12, 1998

/s/ John W. Smith

John W. Smith
President & Chief Executive Officer

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DEC-31-1998
MAR-31-1998
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