UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For fiscal year ended December 31, 2002
Commission file number 001-13253

THE PEOPLES HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Mississippi	64-0676974
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
209 Troy Street Tupelo, Mississippi 38802-0709	(662) 680-1001
(Address of principal executive offices) (Zip Code)	Registrant's Telephone Number

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

Common Stock, $5.00 Par Value	American Stock Exchange
(Title of Class)	(Name of each exchange on which registered)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
YES X NO

As of June 28, 2002, the aggregate market value of the registrant's common stock, $5.00 par value, held by non-affiliates of the registrant was $229,881,834.

As of February 26, 2003, 5,572,751 shares of the registrant's common stock, $5.00 par value, were outstanding. The registrant has no other classes of securities outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement dated March 10, 2003, relating to the 2003 annual meeting of shareholders of The Peoples Holding Company, are incorporated by reference into Part III.

THE PEOPLES HOLDING COMPANY

Form 10-K

For the year ended December 31, 2002

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PART I

This Annual Report on Form 10-K 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 our portfolio of outstanding loans, and competition in the Company's markets. We undertake 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.

ITEM 1. BUSINESS

General

The Peoples Holding Company (referred to herein as the "Company," we, our, or us) was incorporated on November 10, 1982 under the laws of the State of Mississippi in order to acquire all of the common stock of The Peoples Bank & Trust Company, Tupelo, Mississippi (the "Bank").

Our vision is to be the financial services advisor and provider of choice in each community we serve. With this vision in mind, management reorganized the branch banks into community banks using a franchise concept. The franchise approach empowers Community Bank Presidents to execute their own business plans in order to achieve our vision. Specific performance measurement tools are available to assist the presidents in determining the success of their plan implementation. A few of the ratios used in measuring the success of their business plan include return on average assets ("ROA"), number and type of services provided per household, fee income shown as a percent of loans and deposits, efficiency ratio, loan and deposit growth, net interest margin and spread, percentage of loans past due in greater than 30, 60 and 90 day categories, and net charge-offs to average loans.

Our vision is further validated through our core values. These values state that (1) employees are our greatest asset, (2) quality is not negotiable, and (3) clients' trust is foremost. Centered around these values were the development of five different objectives that are the focal point of our strategic plan. Those objectives include: (1) client satisfaction and development, (2) financial soundness and profitability, (3) growth, (4) employee satisfaction and development, and (5) shareholder satisfaction and development.

Approximately 150 short and long-range strategic initiatives have been identified to accomplish our objectives. A majority of the short-term initiatives have been completed and significant progress has been made on the long-term initiatives.

Organization

We commenced business on July 1, 1983, the date we acquired the Bank through a merger. All of our business activities are conducted through the Bank and the Bank's wholly owned subsidiary, The Peoples Insurance Agency. The Bank accounts for substantially all of our assets and revenues.

On December 31, 2002, we had 24 community banks (franchises) with 40 banking offices located throughout Mississippi, specifically in Aberdeen, Amory, Batesville, Belden, Booneville, Calhoun City, Coffeeville, Corinth, Grenada, Guntown, Hernando, Iuka, Louisville, New Albany, Okolona, Olive Branch, Pontotoc, Saltillo, Sardis, Shannon, Smithville, Southaven, Tupelo, Verona, Water Valley, West Point, and Winona. In addition, our insurance company offices are located in Corinth, Louisville, and Tupelo.

All members of our Board of Directors are also members of the Board of Directors of the Bank. Responsibility for the management of the Bank and its subsidiaries remains with the Board of Directors and officers of the Bank; however, management services rendered by us to the Bank are intended to supplement the internal management of the Bank and expand the scope of banking services normally offered by them.

The Bank was established in February, 1904 as a state-chartered bank. It is insured by the Federal Deposit Insurance Corporation.

At our core, we are a community bank offering a complete range of banking and financial services to individuals and small to medium-size businesses. These services include checking and savings accounts, business and personal loans, interim construction and residential mortgage loans, student loans, equipment leasing, as well as safe deposit and night depository facilities. Automated teller machines located throughout our market area, our Internet Banking product and our call center provide 24-hour banking services. Accounts receivable financing is also available to qualified businesses.

We offer a wide variety of fiduciary services and administer (as trustee or in other fiduciary or representative capacities) qualified retirement plans, profit sharing and other employee benefit plans, personal trusts and estates. In addition to offering annuities, mutual funds and other investment services through a third party broker-dealer, the acquisition of insurance agencies has expanded our product and delivery network to include personal and business insurance coverage. Neither we, nor the Bank, have any foreign activities.

Business Combinations and Acquisitions

On March 26, 1999, the Company merged with Inter-City Federal Bank for Savings ("Inter-City"). At the merger date, total assets, loans, and deposits for Inter-City totaled $43,482,000, $33,812,000 and $37,751,000, respectively. The Company exchanged 347,382 shares of its common stock for all the outstanding common stock of Inter-City.

On June 24, 1999, the Company purchased Reed-Johnson Insurance Agency, Inc. ("Reed-Johnson") with the issuance of 40,530 shares of the Company's common stock. Located in Tupelo, Mississippi, Reed-Johnson was an independent insurance agency representing property and casualty companies and providing personal and business coverage. Reed-Johnson operated as a wholly owned subsidiary of The Peoples Bank and Trust Company and was renamed The Peoples Insurance Agency, Inc. in May, 2001.

Southern Insurance Group, Inc., Southern Insurance of Corinth, Inc., and Southern Financial Services, P.A. (collectively, "Southern") were acquired on May 1, 2000 by the Company by issuing 70,500 shares of its common stock for a total price of approximately $1,692,000. Southern offered property and casualty insurance products, life and health insurance, and annuities and mutual funds. The acquired companies were merged into the Bank's insurance subsidiary, The Peoples Insurance Agency, Inc.

The Bank acquired Dominion Company, Dominion Health and Life P.A. (collectively, "Dominion") and Alliance Finance Company ("Alliance") on September 1, 2000. Dominion offered products similar to Southern and used Alliance to finance insurance premiums. The Bank paid $450,000 in cash for the companies. The acquired companies were merged into the Bank's insurance subsidiary, The Peoples Insurance Agency, Inc.

Competition

Vigorous competition exists in all major areas where we conduct business. We compete through the Bank with state and national banks in our service areas, as well as savings and loan associations, credit unions, finance companies, mortgage companies, insurance companies, brokerage firms, and investment companies for available loans and depository accounts. All of these institutions compete in the delivery of services and products through availability, quality, and pricing. There are no dominant competitors in our market area.

For 2002, we maintained approximately 20% of the market share in our area. Our largest competitor is Bancorp South with a market share of approximately 28%. Other competitors, each with less than 10% of the market share, include Union Planters Bank, AmSouth Bank, Merchants and Farmers Bank, National Bank of Commerce, and Trustmark National Bank. In addition, there are local community banks that compete with us on an individual market basis.

Supervision and Regulation

Under the current regulatory environment, nearly every facet of our operations is subject to requirements and restrictions imposed from various state and federal banking laws and regulations. The primary focus of these laws and regulations is on the protection of depositors, the insurance funds of the Federal Deposit Insurance Corporation ("FDIC"), and the banking system as a whole. While the following summary addresses the regulatory environment in which we operate, it is not intended to be a fully inclusive discussion of the statutes and regulations affecting our operations. The impact from future changes in federal or state legislation on our operations cannot be predicted.

We are a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Act"), and are registered as such with the Board of Governors of the Federal Reserve System (the "Board"). We are required to file with the Board an annual report and such other information as the Board may require. The Board may also make examinations of us and our Bank pursuant to the Act. The Board also has the authority (which it has not exercised) to regulate provisions of certain types of our debt.

The Act requires a bank holding company to obtain prior approval of the Board before acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by such bank holding company.

The Act provides that the Board shall not approve any acquisition, merger or consolidation, which would result in a monopoly or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking. Neither will the Board approve any other transactions in which the effect might substantially lessen competition, or in any manner be a restraint on trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

The Act also prohibits a bank holding company, with certain exceptions, from itself engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. The principal exception is for engaging in or acquiring shares of a company whose activities are found by the Board to be so closely related to banking or managing banks as to be a proper incident thereto. In making such determinations, the Board is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can reasonably be expected to produce benefits to the public such as greater convenience, increased competition, or gains in efficiency of resources versus the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest, or unsound banking practices.

The Act prohibits the acquisition by a bank holding company of more than 5% of the outstanding voting shares of a bank located outside the state in which the operations of its banking subsidiaries are principally conducted, unless such an acquisition is specifically authorized by statute of the state in which the bank to be acquired is located. We and our Bank are subject to certain restrictions imposed by the Federal Reserve Act and the Federal Deposit Insurance Act on any extensions of credit to the Company or the Bank, on investments in the stock or other securities of the Company or the Bank, and on taking such stock or other securities as collateral for loans of any borrower.

The Bank Holding Company Act of 1956 was recently amended to permit "financial holding companies" to engage in a broader range of nonbanking financial activities, such as underwriting and selling insurance, providing financial or investment advice, and dealing and making markets in securities and merchant banking. The new legislation, the Gramm-Leach-Bliley Act, was enacted on November 12, 1999, and became effective on March 11, 2000. In order to qualify as a financial holding company, we must declare to the Federal Reserve our intention to become a financial holding company and certify that our depository subsidiary meets the capitalization management requirements and that it has at least a satisfactory rating under the Community Reinvestment Act. As of December 31, 2002, we had not elected to become a financial holding company.

The Bank was chartered under the laws of the State of Mississippi and is subject to the supervision of, and is regularly examined by, the Department of Banking and Consumer Finance of the State of Mississippi. The Bank is also insured by the Federal Deposit Insurance Corporation and is subject to examination and review by that regulatory authority.

Mississippi banks are permitted to merge with other existing banks statewide and to acquire or be acquired by banks or bank holding companies. Section 102 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 removed territorial restrictions for interstate bank mergers, effective May 1, 1997. Out-of-state bank holding companies may establish a bank in Mississippi only by acquiring a Mississippi bank or Mississippi bank holding company.

Bank holding companies are allowed to acquire savings associations under The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). Deposit insurance premiums for banks and savings associations were increased as a result of FIRREA, and losses incurred by the FDIC in connection with the default or assistance of troubled federally insured financial institutions are required to be reimbursed by other federally insured financial institutions.

Certain restrictions exist regarding the ability of the Bank to transfer funds to us in the form of cash dividends, loans, or advances. The approval of the Mississippi Department of Banking and Consumer Finance is required prior to the Bank paying dividends and is limited to earned surplus in excess of three times the Bank's capital stock.

Federal Reserve regulations also limit the amount the Bank may loan to the Company unless such loans are collateralized by specific obligations. At December 31, 2002, the maximum amount available for transfer from the Bank in the form of cash dividends and loans was 19.65% of the Bank's consolidated net assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") provides for increased funding for the FDIC's deposit insurance fund through risk based assessments and expands the regulatory powers of federal banking agencies to permit prompt corrective actions to resolve problems of insured depository institutions. While most of the Company's deposits are in the Bank Insurance Fund ("BIF"), a small portion of the Company's deposits that were acquired from savings associations over the years remain in the Savings Association Insurance Fund ("SAIF").

The Community Reinvestment Act of 1997 ("CRA") requires the assessment by the appropriate regulatory authority of a financial institution's record in meeting the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") requires financial institutions to establish anti-money laundering programs and due diligence policies, procedures and controls with respect to bank accounts involving foreign individuals and certain foreign banks, and to avoid establishing and maintaining accounts in the United States for, or on the behalf of, foreign banks that do not have a physical presence in any country.

The Sarbanes-Oxley Act of 2002 (the "Act") requires publicly traded companies subject to the Securities Exchange Act of 1933 or 1934 to adhere to several directives designed to prevent corporate misconduct. Additional duties have been placed on officers, directors, auditors and attorneys of public companies. The Act requires certifications regarding financial statement accuracy and internal control adequacy by chief executive officers and chief financial officers with periodic reports filed with the Securities and Exchange Commission ("SEC"). The Act also accelerates Section 16 insider reporting obligations, restricts certain executive officer and director transactions, imposes new obligations on corporate audit committees, and provides for enhanced review by the SEC.

Monetary Policy and Economic Controls

The earnings and growth of the banking industry, the Bank and, to a larger extent, the Company are affected by the policies of regulatory authorities, including the Federal Reserve System. An important function of the Federal Reserve System is to regulate the national supply of bank credit in order to combat recession and curb inflationary pressures. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open market operations in U. S. Government securities, changes in the discount rate on bank borrowings, and changes in reserve requirements against bank deposits. These instruments are used in varying degrees to influence overall growth of bank loans, investments, and deposits and may also affect interest rates charged on loans or paid for deposits.

The monetary policies of the Federal Reserve System have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future. In view of changing conditions in the national economy and in the various money markets, as well as the effect of actions by monetary and fiscal authorities including the Federal Reserve System, the effect on our and our Bank's future business and earnings cannot be predicted with accuracy.

Sources and Availability of Funds

The funds essential to our and our Bank's business consist primarily of funds derived from customer deposits and borrowings from the Federal Home Loan Bank and correspondent banks by the banking subsidiary. The availability of such funds is primarily dependent upon the economic policies of the federal government, the economy in general, and the general credit market for loans.

Personnel

At December 31, 2002, we employed 587 people at the Bank and the insurance company on a full-time equivalent basis. The Company has no additional employees; however, at December 31, 2002, four Bank employees served as officers of the Company in addition to their bank positions. Two additional Bank employees were appointed to serve as officers of the Company in February 2003.

Dependence Upon a Single Customer

Neither we nor our Bank is dependent upon a single customer or upon a limited number of customers.

Available Information

Our Internet address is www.thepeoplesbankandtrust.com. We make available at this address, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practical after we electronically file such material with or furnish it to, the Securities and Exchange Commission.

Table 1 - Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential (In Thousands)

The following tables set forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the fiscal years ended December 31, 2002, 2001, and 2000:

	2002		
	Tax Equivalent Income or Expense	Average Balance Sheet Amount	Yields/ Rates
Interest-earning assets			
Loans, net of unearned income			
Commercial	$ 33,817	$ 479,515	7.05%
Consumer	15,375	186,675	8.24%
Other loans	12,673	170,916	7.41%
Total loans, net	61,865	837,106	7.39%
Other	332	19,944	1.66%
Taxable securities			
U. S. Government securities*	380	6,229	6.10%
U. S. Government agencies*	3,143	60,275	5.21%
Mortgage-backed securities	8,418	156,129	5.39%
Trust preferred securities	428	9,433	4.54%
Total taxable securities	12,369	232,066	5.33%
Tax-exempt securities			
Obligations of states and political subdivisions	6,667	87,920	7.58%
Other equity securities	313	4,267	7.34%
Total tax-exempt securities	6,980	92,187	7.57%
Total securities	19,349	324,253	5.97%
Total interest-earning assets	81,546	1,181,303	6.90%
Cash and due from banks		43,439	
Other assets, less allowance for loan losses		81,892	
Total assets		$ 1,306,634	
Interest-bearing liabilities			
Interest-bearing demand deposit accounts	1,722	$ 99,830	1.72%
Savings and money market accounts	4,357	290,132	1.50%
Time deposits	17,955	559,665	3.21%
Total interest-bearing deposits	24,034	949,627	2.53%
Total other interest-bearing liabilities	2,491	59,563	4.18%
Total interest-bearing liabilities	26,525	1,009,190	2.63%
Noninterest-bearing sources			
Noninterest-bearing deposits		153,346	
Other liabilities		16,710	
Shareholders' equity		127,388	
Total liabilities and shareholders' equity		$ 1,306,634	
Net interest income/net interest margin	$ 55,021		4.66%

The average balances of non-accruing loans are included in this table. Weighted average yields on tax-exempt loans and securities have been computed on a fully tax-equivalent basis assuming a federal tax rate of 35% and a Mississippi state tax rate of 3.3%, which is net of federal tax benefit.

*U. S. Government and some U. S. Government Agency Securities are tax-free in the state of Mississippi.

Table 1 - Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential (continued)

	2001		
	Tax Equivalent Income or Expense	Average Balance Sheet Amount	Yields/ Rates
Interest-earning assets			
Loans, net of unearned income			
Commercial	$ 38,336	$ 442,732	8.66%
Consumer	18,089	196,378	9.21%
Other loans	14,731	177,548	8.30%
Total loans, net	71,156	816,658	8.71%
Other	873	23,429	3.73%
Taxable securities			
U. S. Government securities*	2,035	33,864	6.01%
U. S. Government agencies*	2,938	49,346	5.95%
Mortgage-backed securities	6,568	103,486	6.35%
Trust preferred securities	200	4,026	4.97%
Total taxable securities	11,741	190,722	6.16%
Tax-exempt securities			
Obligations of states and political subdivisions	6,674	84,482	7.90%
Other equity securities	636	7,822	8.13%
Total tax-exempt securities	7,310	92,304	7.92%
Total securities	19,051	283,026	6.73%
Total interest-earning assets	91,080	1,123,113	8.11%
Cash and due from banks		40,146	
Other assets, less allowance for loan losses		74,036	
Total assets		$ 1,237,295	
Interest-bearing liabilities			
Interest-bearing demand deposit accounts	2,083	$ 77,113	2.70%
Savings and money market accounts	6,701	263,581	2.54%
Time deposits	30,542	580,247	5.26%
Total interest-bearing deposits	39,326	920,941	4.27%
Total other interest-bearing liabilities	1,596	29,347	5.44%
Total interest-bearing liabilities	40,922	950,288	4.31%
Noninterest-bearing sources			
Noninterest-bearing deposits		144,073	
Other liabilities		18,306	
Shareholders' equity		124,628	
Total liabilities and shareholders' equity		$ 1,237,295	
Net interest income/net interest margin	$ 50,158		4.47%

The average balances of non-accruing loans are included in this table. Weighted average yields on tax-exempt loans and securities have been computed on a fully tax-equivalent basis assuming a federal tax rate of 35% and a Mississippi state tax rate of 3.3%, which is net of federal tax benefit.

*U. S. Government and some U. S. Government Agency Securities are tax-free in the state of Mississippi.

Table 1 - Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential (continued)

	2000		
	Tax Equivalent Income or Expense	Average Balance Sheet Amount	Yields/ Rates
Interest-earning assets			
Loans, net of unearned income			
Commercial	$ 38,014	$ 418,969	9.07%
Consumer	19,196	209,969	9.14%
Other loans	16,314	187,650	8.69%
Total loans, net	73,524	816,588	9.00%
Other	459	7,546	6.08%
Taxable securities			
U. S. Government securities*	2,832	49,530	5.72%
U. S. Government agencies*	3,046	48,817	6.24%
Mortgage-backed securities	5,693	89,987	6.33%
Trust preferred securities	290	3,777	7.68%
Total taxable securities	11,861	192,111	6.17%
Tax-exempt securities			
Obligations of states and political subdivisions	6,719	85,048	7.90%
Other equity securities	324	3,256	9.95%
Total tax-exempt securities	7,043	88,304	7.98%
Total securities	18,904	280,415	6.74%
Total interest-earning assets	92,887	1,104,549	8.41%
Cash and due from banks		39,299	
Other assets, less allowance for loan losses		53,409	
Total assets		$ 1,197,257	
Interest-bearing liabilities			
Interest-bearing demand deposit accounts	2,475	$ 71,373	3.47%
Savings and money market accounts	9,078	273,217	3.32%
Time deposits	30,616	545,583	5.61%
Total interest-bearing deposits	42,169	890,173	4.74%
Total other interest-bearing liabilities	1,963	43,396	4.52%
Total interest-bearing liabilities	44,132	933,569	4.73%
Noninterest-bearing sources			
Noninterest-bearing deposits		141,094	
Other liabilities		4,690	
Shareholders' equity		117,904	
Total liabilities and shareholders' equity		$ 1,197,257	
Net interest income/net interest margin	$ 48,755		4.41%

The average balances of non-accruing loans are included in this table. Weighted average yields on tax-exempt loans and securities have been computed on a fully tax-equivalent basis assuming a federal tax rate of 35% and a Mississippi state tax rate of 3.3%, which is net of federal tax benefit.

*U. S. Government and some U. S. Government Agency Securities are tax-free in the state of Mississippi.

Table 2 - Volume/Rate Analysis
(In Thousands)

The following table sets forth for The Peoples Holding Company, for the years ended December 31 as indicated, a summary of the changes in interest earned and interest paid resulting from changes in volume and rates.

	2002 Compared To 2001		
	Increase (Decrease) Due To Changes In		
	Volume	Rate	Net (1)
Interest income:			
Loans, net of unearned income	$ 1,746	$ (10,954)	$ (9,208)
Securities			
U. S. Government and agency securities	(977)	(420)	(1,397)
Obligations of states and political subdivisions	173	(219)	(46)
Mortgage-backed securities	3,341	(1,491)	1,850
Trust preferred and Federal Home Loan Bank securities	269	(41)	228
Other equity securities	(210)	(24)	(234)
Other	(130)	(411)	(541)
Total interest-earning assets	4,212	(13,560)	(9,348)
Interest expense:			
Interest-bearing demand deposit accounts	613	(974)	(361)
Savings and money market accounts	675	(3,019)	(2,344)
Time deposits	(1,083)	(11,504)	(12,587)
Borrowed funds	1,643	(748)	895
Total interest-bearing liabilities	1,848	(16,245)	(14,397)
Change in net interest income	$ 2,364	$ 2,685	$ 5,049

(1) The change in interest due to both volume and rate has been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.

Table 2 - Volume/Rate Analysis (continued)

	2001 Compared To 2000		
	Increase (Decrease) Due To Changes In		
	Volume	Rate	Net (1)
Interest income:			
Loans, net of unearned income	$ 51	$ (2,383)	$ (2,332)
Securities			
U. S. Government and agency securities	(835)	(38)	(873)
Obligations of states and political subdivisions	(28)	140	112
Mortgage-backed securities	854	20	874
Trust preferred and Federal Home Loan Bank securities	19	(109)	(90)
Other equity securities	330	(103)	227
Other	966	(552)	414
Total interest-earning assets	1,357	(3,025)	(1,668)
Interest expense:			
Interest-bearing demand deposit accounts	199	(591)	(392)
Savings and money market accounts	(320)	(2,057)	(2,377)
Time deposits	1,945	(2,019)	(74)
Borrowed funds	(636)	269	(367)
Total interest-bearing liabilities	1,188	(4,398)	(3,210)
Change in net interest income	$ 169	$ 1,373	$ 1,542

(1) The change in interest due to both volume and rate has been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.

Table 3 - Investment Portfolio
(In Thousands)

The following table sets forth the amortized cost of investments in (1) U. S. Treasury and other U. S. agencies and corporations, (2) obligations of states of the U. S. and political subdivisions, and (3) other securities as of December 31, 2002, 2001, and 2000:

	2002	2001	2000
Held to maturity:			
U. S. Treasury and other U. S. agencies	$ --	$ --	$ --
Obligations of state and political subdivisions*..	--	--	85,658
Other securities	--	--	--
Total	$ --	$ --	$ 85,658

	2002	2001	2000
Available for sale:			
U. S. Treasury and other U. S. agencies	$ 50,931	$ 66,029	$ 98,998
Obligations of state and political subdivisions*..	92,464	84,709	--
Other securities	192,204	123,097	94,023
Total	$ 335,599	$ 273,835	$ 193,021

*The Company classified all obligations of state and political subdivisions as held to maturity prior to 2001. As allowed upon adoption of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company transferred all securities from held to maturity to available for sale.

The following table sets forth the maturity distribution in thousands and weighted average yield by maturity of securities at December 31, 2002:

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
Available for Sale:								
U. S. Treasury and agency securities	$ 12,024	4.71%	$ 30,853	5.86%	$ 8,054	3.26%	$ --	--
Obligations of state and political subdivisions	4,196	7.45%	25,280	7.26%	45,550	6.71%	17,438	6.86%
Mortgage-backed securities	35,666	5.49%	135,683	5.48%	4,655	6.62%	4,315	2.75%
Trust preferred securities	--	--	6,792	5.36%	--	--	--	--
Other equity securities	3,893	7.70%	1,200	6.78%	--	--	--	--
Total ...	$ 55,779		$199,808		$ 58,259		$ 21,753	

The maturity of mortgage-backed securities, included as other securities, reflects scheduled repayments based upon the anticipated average life of the securities.

Weighted average yields on tax-exempt obligations have been computed on a fully tax-equivalent basis assuming a federal tax rate of 35% and a Mississippi state tax rate of 3.3%, which is net of federal tax benefit.

Yields on available for sale securities are based on amortized cost.

Table 4 - Loan Portfolio
(In Thousands)

The following table sets forth loans, net of unearned income, outstanding as of December 31, 2002, which, based on remaining scheduled repayments of principal, are due in the periods indicated.

	Loan Maturities			
	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial, financial and agricultural	$ 93,077	$ 42,433	$ 3,947	$ 139,457
Lease financing	7,061	8,277	--	15,338
Real estate - construction	30,664	6,163	314	37,141
Real estate - mortgage	224,830	253,175	96,465	574,470
Installment loans to individuals	28,418	65,937	2,547	96,902
	$ 384,050	$ 375,985	$ 103,273	$ 863,308

The following table sets forth the fixed and variable rate loans maturing after one year for all loans as of December 31, 2002:

	Interest Sensitivity	
	Fixed Rate	Variable Rate
Due after 1 but within 5 years	$ 365,009	$ 10,975
Due after 5 years	102,747	527
	$ 467,756	$ 11,502

Table 5 - Deposits
(In Thousands)

The following table shows the maturity of time certificates of deposits and other time deposits over $100 at December 31, 2002:

Less than 3 Months	$ 45,396
3 Months-6 Months	55,361
6 Months-12 Months	26,852
Over 12 Months	58,311
	$ 185,920

The following table shows the average balances and average rates of deposits at December 31:

	2002		2001		2000	
	Average	Rate	Average	Rate	Average	Rate
Noninterest-bearing demand deposits	$ 153,346	-- %	$ 144,073	-- %	$ 141,094	-- %
Interest-bearing demand deposits	99,830	1.72	77,113	2.70	71,373	3.47
Savings and money market deposits	290,132	1.50	263,581	2.54	273,217	3.32
Time deposits	559,665	3.21	580,247	5.26	545,583	5.61
Total	$ 1,102,973	2.18%	$ 1,065,014	3.69%	$ 1,031,267	4.09%

Short-term Borrowings
(In Thousands)

The average balances of short-term borrowings for 2002, 2001, and 2000 were $4,093, $4,775, and $11,259 at weighted average rates of 1.26%, 3.33%, and 6.15% respectively.

ITEM 2. PROPERTIES
(In Thousands)

The main offices of the Company and the Bank are located at 209 Troy Street, Tupelo, Mississippi. Various departments of the Bank occupy each floor of the five-story building. The Technology Center, also located in Tupelo, houses electronic data processing, document preparation, document imaging, loan servicing, and deposit operations. In addition, the Bank operates forty (40) branches throughout north and north central Mississippi. The Bank has seven (7) branches in Tupelo; three (3) branches in Booneville; two (2) branches each in Amory, Corinth, Louisville, Pontotoc, and West Point; one (1) branch each in Aberdeen, Batesville, Belden, Calhoun City, Coffeeville, Grenada, Guntown, Hernando, Iuka, New Albany, Okolona, Olive Branch, Saltillo, Sardis, Shannon, Smithville, Southaven, Verona, Water Valley, and Winona. The Insurance divisions have one (1) office each in Corinth, Louisville, and Tupelo.

The Bank owns the main offices located at 209 Troy Street, Tupelo, Mississippi as well as thirty-seven (37) of the branch office sites. The Bank leases three locations for use in conducting banking activities as well as various storage facilities. The Peoples Insurance Agency leases one location for conducting its business. The aggregate annual rental for all leased premises during the year ending December 31, 2002 was $111.

It is anticipated that by May, 2003, construction will be complete and a new branch will be operational in Pontotoc, Mississippi. The new branch will be located on Highway 15, a major thoroughfare in Pontotoc County and will replace the existing drive-through office. Also, construction on a new branch facility in Horn Lake, Mississippi, which is in our DeSoto County market, should be complete by November, 2003. Both new facilities and the land on which they are constructed will be owned by the Bank. Renovations to our existing Veterans branch located in Tupelo should be completed during the fourth quarter of 2003. Plans are also underway to lease a facility in the newly developed Fair Park in Tupelo to house our Financial Services division. The facilities currently owned or occupied under lease by the Company or the Bank are considered by management to be suitable and adequate for their intended purposes.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or the Bank or any of their subsidiaries is a party or to which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the Company's security holders during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information and Dividends

The public market for the Company's common stock is limited. The Company's common stock trades on the American Stock Exchange under the ticker symbol PHC. On February 26, 2003, the Company had approximately 2,600 shareholders of record.

The following table sets forth (i) the high and low sales price reported on the American Stock Exchange for the Company's common stock for each quarterly period for the fiscal years ended December 31, 2002 and 2001, and (ii) the amount of cash dividends declared during each quarterly period during such fiscal years:

	Dividends Per Share	Prices	
		Low	High
2002			
1st Quarter	$ .25	$ 31.38	$ 38.71
2nd Quarter	.26	33.81	40.47
3rd Quarter	.26	37.81	41.95
4th Quarter	.27	39.40	43.97
2001			
1st Quarter	$ .23	$ 15.81	$ 19.31
2nd Quarter	.24	17.60	32.77
3rd Quarter	.24	30.05	34.51
4th Quarter	.25	32.27	37.75

The Company declares dividends on a quarterly basis. Funds for the payment of cash dividends are obtained from dividends received by the Company from the Bank. Accordingly, the declaration and payment of cash dividends by the Company depend upon the Bank's earnings and financial condition, general economic conditions, compliance with regulatory requirements, and other factors.

ITEM 6. SELECTED FINANCIAL DATA
(Unaudited)
(In Thousands, Except Share Data)

	2002	2001	2000	1999	1998
Year ended December 31:					
Interest income	$ 78,418	$ 87,766	$ 89,434	$ 83,500	$ 81,280
Interest expense	26,525	40,922	44,132	37,342	37,434
Provision for loan losses	4,350	4,790	6,373	3,192	2,591
Noninterest income	27,442	24,389	18,529	19,476	14,461
Noninterest expense	50,496	46,747	42,474	41,480	39,338
Income before income taxes	24,489	19,696	14,984	20,962	16,378
Income taxes	6,819	5,109	3,800	6,182	4,697
Income before cumulative effect of accounting change	17,670	14,587	11,184	14,780	11,681
Cumulative effect of accounting change.	(1,300)	--	--	--	--
Net income	$ 16,370	$ 14,587	$ 11,184	$ 14,780	$ 11,681
Per Common Share:					
Income before cumulative effect of accounting change	$ 3.15	$ 2.48	$ 1.83	$ 2.38	$ 1.88
Cumulative effect of accounting change.	(.23)	--	--	--	--
Net income	$ 2.92	$ 2.48	$ 1.83	$ 2.38	$ 1.88
Book value at December 31	$ 23.82	$ 21.66	$ 20.09	$ 18.71	$ 17.80
Closing price on the AMEX at December 31	40.75	37.00	18.00	28.88	32.31
Cash dividends declared and paid - the Company	1.04	.96	.88	.84	.72
Cash dividends declared and paid-Inter-City	--	--	--	--	.36
At December 31:					
Loans, net of unearned income	$ 863,308	$ 827,696	$ 815,854	$ 799,085	$ 729,156
Securities	344,781	277,293	278,574	266,744	293,639
Assets	1,344,512	1,254,727	1,211,940	1,162,959	1,107,795
Deposits	1,099,048	1,063,055	1,046,605	978,958	960,295
Borrowings	91,806	47,326	24,549	51,269	22,476
Shareholders' equity	132,778	123,582	121,661	116,089	110,209

	2002	2001	2000	1999	1998
Selected Ratios					
Return on average:					
Total assets	1.25%	1.18%	.93%	1.29%	1.09%
Shareholders' equity	12.85%	11.70%	9.49%	13.19%	10.85%
Before cumulative effect of accounting change, return on average:					
Total assets	1.35%	1.18%	.93%	1.29%	1.09%
Shareholders' equity	13.87%	11.70%	9.49%	13.19%	10.85%
Average shareholders' equity to average assets	9.75%	10.07%	9.85%	9.77%	10.07%
At December 31:					
Shareholders' equity to assets	9.88%	9.85%	10.04%	9.98%	9.95%
Allowance for loan losses to total loans, net of unearned income	1.41%	1.37%	1.29%	1.26%	1.34%
Allowance for loan losses to nonperforming loans	338.22%	178.63%	147.89%	126.47%	261.95%
Nonperforming loans to total loans, net of unearned income	.42%	.77%	.87%	1.00%	.51%
Dividend payout	35.59%	38.52%	47.76%	35.24%	36.89%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In Thousands, Except Share Data)

Overview

Economy

The year 2002 faced its own challenges as the economy began its slow recovery. The threat of war with Iraq kept consumers spending more conservatively, corporations holding back on expansion, and Americans watching as fuel prices increased. At its November meeting, the Federal Reserve Bank, concerned with the slow recovery and the need for a stimulus, dropped the discount rate 50 basis points to .75%. This was the only change in rates for the year. The federal funds rate followed the 50 basis point decline, falling to 1.25% with the prime interest rate changing from 4.75% to 4.25%.

On the national front, growth in Gross Domestic Product ("GDP") ranged from 5% in the first quarter to .7% for the fourth quarter. Consumer sentiment was down from earlier months in the year as it dropped from a high of 96.9 in May to a low of 80.6 in October. The index ended the year at 86.7. The unemployment rate, fluctuating between 5.6% and 6%, ended the year at 6% as major corporations continued to lay off workers.

A positive sign of the recovery was the industrial production growth. While the nation experienced negative growth during the first half of the year, production rebounded to 2.1% by the end of 2002. In addition, the Institute for Supply Management ("ISM") index improved to 54.7, up from prior months of approximately 49. This factor's importance lies in its measurement of whether the economy is growing or contracting. A ratio of 50 or greater is indicative of a growing economy. Still lagging, however, was the capital utilization that hovered around 75.5%. This is indicative of slow corporate spending on plant and equipment until the economy improves and sales volumes rise.

While the economy of north Mississippi is diversified, furniture manufacturing is an important element. By the end of 2002, housing starts, permits, and new home sales were up. Normally, furniture orders follow the housing market. The major housing growth areas for the Company are located in Lee and DeSoto Counties.

Unemployment rates within our market ranged from 3.8% to approximately 12% at year-end. The unemployment rates, where we have our largest presence, are currently below the national average. Lee County, the corporate headquarters for the Company, as well as surrounding counties, saw a 5% increase in both manufacturing and non-manufacturing jobs during 2002.

In addition, we are located in two of the top five retail markets in Mississippi, with 2002 sales up .8% and 14.7% in Lee and DeSoto Counties, respectively. It is expected that growth for 2003 will be 3.4% and 26.5%, respectively, for those counties.

Critical Accounting Policies

Our financial statements are prepared using accounting estimates for various accounts. Wherever feasible, we utilize third-party information to provide management with estimates. Although independent third parties are utilized to assist us in the estimation process, management evaluates the results, and challenges assumptions used and other factors which could impact the estimation. Following are some of the more significant estimates used in preparing our financial statements.

The critical accounting policy that is most important to the presentation of our financial statements relates to the allowance for loan loss and related provision. See our discussion in the Credit Risk section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other real estate is carried at lower of cost or fair market value based on appraisals by certified appraisers. Property values are assessed periodically for impairment.

Our health insurance administrator is Blue Cross-Blue Shield. Coverage is self-funded up to a set stop loss per employee. We maintain an accrued liability that includes estimated claims to be paid. The accrued liability account is evaluated at year-end for adequacy using a lag analysis provided by the administrator. This data is used to calculate an estimated amount to be paid for 2002 during 2003.

William M. Mercer, Inc. prepares actuarial valuations of our pension cost under FASB Statement No. 87, as modified by FASB Statement No. 132, and our post retirement health cost under FASB Statement No. 106. The discount rate used in the 2002 valuation was 6.75%, down from 7.50% in 2001. Actual plan assets as of December 31, 2002 were used in the calculation and the expected long-term return on plan assets assumed for this valuation was 8.00%. The pension plan covered under FASB Statement No. 87 was curtailed as of December 31, 1996.

We currently have a defined contribution pension plan, which requires the Company to contribute 5.00% of each qualified employee's salary to the plan. The accrual for that plan is based on actual qualified salaries for 2002. The 401(k) expense was calculated in the same manner.

We believe we employ appropriate methods for these calculations that should closely approximate the actual cost. We review the calculated results for reasonableness, and compare those calculations to prior period costs. We also consider the effect of current economic conditions on the calculations.

Performance Results

Record results were achieved in 2002 as earnings per share increased 17.74% over 2001. Earnings per share before the cumulative effect of an accounting change improved 27.02% over 2001. The significant factor contributing to the improvement is the effort dedicated to implementing and monitoring our strategic plan. Through our strategic plan, the management team laid the foundation for improving credit quality, raising net interest margin, controlling noninterest expenses, increasing noninterest income, and capital management. Despite the low interest rates and generally sluggish economic environment, we employed strategies to improve net interest income. Those strategies included a proactive approach to pricing of both assets and liabilities, continued restructuring of our investment portfolio, and pursuit of loan growth.

In the first quarter of 2002, the Company completed the transitional impairment test required by FASB Statement No. 142, "Goodwill and Intangible Assets." As a result of this test, we recorded a goodwill impairment charge of $1,300 as a cumulative effect of a change in accounting principle. The Company identified its reporting units as banking operations and insurance operations for purposes of measuring impairment of goodwill. The insurance operations are a wholly owned subsidiary of the Bank. The impairment was specific to the insurance subsidiary. The fair value of the insurance reporting unit was estimated using the expected present value of future cash flows. Because the insurance subsidiary acquisition was a tax-free exchange, there was no tax offset to the impairment cost recorded. The annual impairment test updated as of December 31, 2002, indicated no additional impairment.

Net income before the cumulative effect of the accounting change was approximately 10% greater than projected in the 2002 strategic plan. In addition, we increased our net interest and noninterest income 10.78% and 12.52%, respectively, over 2001. While noninterest expense increased 8.02%, largely attributable to normal salary increases, incentive bonuses, health insurance, pension costs, professional fees, and depreciation costs associated with technology, the net overhead ratio (noninterest expense less noninterest income, all divided by average assets) declined from 1.82% in 2001 to 1.77% in 2002.

A historical look at key performance indicators is presented below.

	2002	2001	2000	1999	1998
EPS*	$ 3.15	$ 2.48	$ 1.83	$ 2.38	$ 1.88
EPS GROWTH*	27.02%	35.52%	(23.11%)	26.60%	6.21%
ROA*	1.35%	1.18%	.93%	1.29%	1.09%
ROE*	13.87%	11.70%	9.49%	13.19%	10.85%

*Amounts above exclude Cumulative Effect of Accounting Change. Including this effect, EPS, ROA & ROE were $2.92, 1.25%, and 12.85%, respectively. EPS growth reflects changes from the immediately preceding year.

Total assets increased to $1,344,512 at December 31, 2002, up 7.16% over the prior year, primarily from loans and securities. Moderate growth in deposits and capital, along with a higher volume of debt, funded this growth.

The Company has an ongoing stock repurchase program under which 129,947 shares were purchased during 2002 at an average price of $36.09 per share. The closing price of a single share of common stock on the American Stock Exchange was $40.75 on December 31, 2002, an increase of 10.14% over the price at December 31, 2001 and an increase of 126.39% over the closing price at December 31, 2000.

Results of Operations

Net interest income, the difference between interest earned on assets and the cost of interest-bearing liabilities, is the largest component of our net income, comprising 49.02% of total revenue. The primary concerns in managing net interest income are the mix and the repricing of rate-sensitive assets and liabilities. We have experienced marked improvement in this area over the course of the last two years for several reasons. First and foremost was the asset liability management committee's assertiveness in making pricing decisions to enhance net interest income. Further enhancing net interest margin was the effect of changing the mix in our investment portfolio that began in 2001 and continued in 2002. Finally, we increased our emphasis on loan growth as a result of recognizing that we must improve our loan to deposit ratio in order to become a high performing bank. We added two seasoned lenders to our team in the DeSoto County market, located in the Memphis MSA, and two in the Lee County (Tupelo) market. One of the new employees in the DeSoto County market will be working in the capacity as an advisor to all our lenders in that area to improve our market share.

Net interest income on a tax equivalent basis increased $4,863 or 9.70%, from $50,158 in 2001 to $55,021 in 2002. Of the tax equivalent increase, $2,346 was due to the favorable growth in net earning assets with an increase of $2,517 due to changes in interest rates. The tax equivalent yield on earnings decreased from 8.11% to 6.90%, or 121 basis points. The cost of interest-bearing liabilities decreased from 4.31% in 2001 to 2.63% in 2002, or 168 basis points.

The improvement in net interest income was directly attributable to both the asset-liability committee's approach to proactively pricing its earning assets and interest-bearing liabilities and the negative gap position of those assets and liabilities. As interest bearing deposits and loans were repriced, the asset-liability committee carefully monitored the effect of that repricing. During 2002, we had more rate sensitive liabilities being repriced than assets which enhanced margin in the falling rate environment. Growth in public fund transaction accounts, coupled with Federal Home Loan Bank borrowings, provided the majority of growth in funding for 2002. Throughout the last two years, as time deposits matured, many clients have chosen to move their funds to more liquid deposit accounts as rates have fallen to a 50-year low. This resulted in a decrease of $10 million in time deposits from December 31, 2001 to December 31, 2002, and a more dramatic $20 million decrease in the average balance of time deposits for 2002 compared to 2001.

Net interest income on a tax equivalent basis increased $1,403 or 2.88%, from $48,755 in 2000 to $50,158 in 2001. Of the tax equivalent change, $232 was due to the favorable growth in net earning assets with an increase of $1,171 due to changes in interest rates. The tax equivalent yield on earning assets was down from 8.41% to 8.11%, or 30 basis points. The cost of interest-bearing liabilities dropped from 4.73% in 2000 to 4.31% in 2001, or 42 basis points. The decline in rates was directly attributable to the Fed's moves, and the asset-liability committee's approach to proactively pricing its earning assets and interest-bearing liabilities. In contrast to 2000, growth in transaction and money market accounts, coupled with Federal Home Loan Bank borrowings, provided the majority of growth in funding.

Average Earning Assets to Total Average Assets

2002	2001	2000	1999	1998
90.41%	90.77%	92.26%	92.41%	92.57%

Average earning assets as a percentage of total average assets are shown above for a five-year period. The decrease in 2001 was attributable to the purchase of $20,000 of bank owned life insurance (BOLI) mid-year of 2001. BOLI is classified as nonearning and included in other assets on the consolidated balance sheet. If the BOLI had been purchased at the beginning of 2001, the earning asset ratio for 2001 would have been approximately 90.12%. The improvement for 2002 over the adjusted 2001 ratio of 90.12% is attributable in part to cash management. The tax equivalent yields on earning assets were 6.90%, 8.11%, and 8.41%, for 2002, 2001, and 2000, respectively.

Net Interest Margin - Tax Equivalent

2002	2001	2000	1999	1998
4.66%	4.47%	4.41%	4.65%	4.70%

Net interest margin, the tax equivalent net yield on earning assets, increased 19 basis points during 2002 over the comparable period in the prior year. The increase was due in part to many changes made in 2001 such as an improvement in risk-based pricing on loans and changing the mix of the investment portfolio. The asset-liability management committee continued to be assertive in setting rates. In addition, the percent of average time deposits to average total deposits decreased from 54.48% in 2001 to 50.74% in 2002 of the portfolio, reducing interest expense that would have offset interest income by shifting funds to less costly accounts. Further enhancing net interest margin was the growth in loans, the Company's highest yielding asset.

Net interest margin, the tax equivalent net yield on earning assets, increased 6 basis points during 2001 over the comparable period in the prior year. An improvement in risk-based pricing on loans, a change in the mix of the investment portfolio, and an assertive approach to pricing funding sources resulted in the increase.

Net interest margin was down 24 basis points for 2000 from the comparable period in the prior year. During the last decade, the Company's net interest margin had generally been above peer banks; however, during 2000 as deposit costs rose, the margin declined to the peer average. The trend of a falling margin was due to interest rate changes and intense competition from other banks and non-banks.

Loans and Loan Interest Income

Loans are the most significant earning asset comprising 64.21%, 65.97% and 67.32% of total assets at December 31, 2002, 2001, and 2000, respectively. The table below sets forth loans outstanding, according to loan type, net of unearned income, at December 31:

Loan Portfolio

	2002	2001	2000	1999	1998
Commercial, financial, agricultural	$139,457	$138,420	$144,130	$138,329	$123,886
Lease financing	15,338	16,483	18,531	17,456	12,363
Real estate-construction	37,141	30,564	25,706	37,437	26,410
Real estate-mortgage	574,470	533,232	501,454	460,348	405,352
Installment loans to individuals	96,902	108,997	126,033	145,515	161,145
Total loans net of unearned income	$863,308	$827,696	$815,854	$799,085	$729,156

Despite the sluggish economy, total loans increased from $827,696 to $863,308, or 4.30% during 2002. The most significant increase occurred in the second half of 2002, due in part to the hiring of lending staff in the DeSoto and Lee county markets. Consumer loans decreased approximately $12,000 during 2002, largely attributable to the curtailment of the sales finance division that occurred in 2000. This was approximately $8,143 for 2002 and $13,030 for 2001. The average loan to deposit ratio was 75.90% for 2002 as shown below. In order to improve net interest margin and net interest income, our strategic plan includes raising our loan to deposit ratio to 85.00% by December 2004. Progress toward this goal is noted in the actual loan to deposit ratio at December 31, 2002 of 78.55%. New loans recorded in 2002 totaled $246,032, of which 61.23% were secured by real estate.

Average Loan to Deposit Ratio

2002	2001	2000	1999	1998
75.90%	76.68%	79.18%	77.43%	73.86%

Loans increased from $815,854 in 2000 to $827,696 in 2001, or 1.45%. Commercial loans, specifically first mortgage commercial real estate, provided the majority of the growth, up 19.56%. First mortgage residential loans experienced growth as well, but on a more moderate basis.

During 2000, we sold approximately $7,951 in student loans, and curtailed the sales finance division (indirect lending), reducing the loan growth to 2.10%. Mortgage loans grew 8.93% over 1999 and were the major growth sector.

Despite interest rate increases and the sale of approximately $18,000 in credit card loans, loan growth in 1999 was 9.59% over 1998. The most significant percentage increase loans occurred in real estate construction and mortgages.

Managing the interest rate risk of the loan portfolio has been a challenge during the last two years with rates dropping to unprecedented lows. Prime was reduced eleven times during 2001 and once more in November 2002, falling from 9.50% at December 31, 2000 to 4.25% at December 31, 2002. As in 2001, clients continued to request financing with extended terms in the low interest rate environment. We employed the use of Federal Home Loan Bank borrowings to match-fund loans where terms were extended for clients, primarily larger commercial and real estate loans.

Average yields on loans decreased from 9.00% in 2000 to 8.71% in 2001, and then to 7.39% in 2002. The most significant changes occurred in commercial loans as the average yield dropped from 9.07% in 2000 to 8.66% in 2001, and to 7.05% in 2002. Consumer loan yields actually increased from 9.14% in 2000 to 9.21% in 2001, then declined to 8.24% in 2002. The increase in our consumer loan yield for 2001 was attributable to improvements made in risk-based pricing of our loans.

The tax equivalent loan interest income was $61,865, $71,156, and $73,524 for the years ended December 31, 2002, 2001, and 2000, respectively. The tax equivalent loan interest income decreased $9,291, or 13.06% in 2002 from 2001 fostered by the low interest rate environment. Coupled with this low interest rate environment was the slight change in the mix of the loan portfolio. In 2002, we experienced a decrease in higher-yielding consumer loans of $12,095, with approximately $8,143 due to the decrease in the sales finance division.

Tax equivalent loan interest income decreased $2,368, or 3.22% in 2001 from 2000, again, primarily due to rate decreases. For 2000, loan volume and pricing accounted for increases in income of $4,466 and $1,850, respectively. The tax equivalent yield on those loans was up 22 basis points to 9.00%.

Investments and Investment Interest Income

Investment income is the second largest component of interest income. The securities portfolio is used to provide term investments, to provide a source for meeting liquidity needs, and to supply securities to be used in collateralizing public funds.

Securities by Sector Allocation (at Fair Value)

Sector	2002	2001	2000
U. S. Treasury securities	-- %	5%	18%
U. S. Government agencies	15%	19%	18%
Mortgage-backed securities	52%	42%	30%
Obligations of states and political subdivisions	28%	30%	31%
FHLB and other preferred stock	5%	4%	3%
	100%	100%	100%

In 2002, securities income on a tax equivalent basis increased $298 over securities income on a tax equivalent basis in 2001. The average balance in the investment portfolio was up $41,227, or 14.57%. The tax equivalent yield on the portfolio was 5.97%, down 76 basis points from 2001. During 2002, and 2001 as well, we made a number of changes in our investment portfolio. As Treasury securities matured, the funds from the maturities were invested in mortgage-backed and agency securities. At December 31, 2002 the Company had no Treasury securities.

In 2002, we changed our investment policy to allow us to increase our position in mortgage-backed securities and collateralized mortgage obligations ("CMOs"). Mortgage-backed securities and CMOs were the primary investments purchased in 2002 with 72.23% of investments coming from this sector. Of the growth in this sector, approximately $30,000 of GNMA securities was funded by Federal Home Loan Bank funds, providing a spread on the arbitrage of 2.127%. The use of this sector of securities has allowed us to increase our cash flow going forward providing funds for loan growth as well as opportunities for repricing as rates begin to rise. In addition, mortgage-backed securities have a higher yield than Treasury and Agency securities.

Other growth for 2002 has come from U. S. Obligations of Government Agencies, and Obligations of States and Political Subdivisions that provide both securities for meeting pledging requirements of municipalities and favorable tax treatment. In addition, we purchased both fixed and variable trust preferred securities to enhance our yield.

For 2001, securities interest income on a tax equivalent basis increased $147 over securities income over a tax equivalent basis in 2000. The average balance in the investment portfolio was up $2,611, or .93%. The tax equivalent yield on the portfolio was 6.73%, down one basis point from the prior year.

In the first quarter of 2001, we changed policy criteria for holding certain types of securities. Not deviating from soundness, in 2001, we reinvested the majority of maturing government securities into mortgage-backed securities to enhance both yield and cash flow. In addition, at the beginning of 2001, we adopted FASB No. 133, "Accounting for Derivative Instruments and Hedging Activities," and made the decision under the opinion to reclassify all securities held to maturity to available for sale. This reclassification provided more flexibility in managing the investment portfolio, particularly in this low interest rate environment.

Deposits and Deposit Interest Expense

The Company relies on deposits as its major source of funds. Deposits funded 81.74%, 84.72% and 86.36% of total assets at December 31, 2002, 2001 and 2000, respectively. Total deposits were $1,099,048, $1,063,055 and $1,046,605 as of December 31, 2002, 2001 and 2000, respectively. Deposit growth for 2002 was 3.39%, an improvement over the 2001 growth of 1.57%.

Noninterest-bearing deposits were $147,565, $145,690 and $131,718 at December 31, 2002, 2001 and 2000, respectively, and funded 10.98%, 11.61% and 10.87% of total assets at those dates. The average balance for 2002 was up $9,273 over 2001 while the average balance for 2001 was up 2.11% over that of 2000. Noninterest-bearing accounts grew most significantly in the free checking, personal, and over 65 accounts in both 2002 and 2001. In 2002, we also saw significant increases in Prime Time accounts and Small Business accounts, both which were targeted in various promotions. In recognition of our shareholders' on-going support, we made a special offer of free checking for life with their participation in our dividend reinvestment plan in 2001.

Average Interest-Bearing Deposits to Total Average Deposits

2002	2001	2000	1999	1998
86.10%	86.47%	86.32%	85.38%	85.83%

Interest-bearing deposits at December 31, 2002, 2001, and 2000 were $951,483, $917,365 and $914,887, respectively. Growth for 2002 was 3.72%, primarily due to public funds. Time deposits were down at December 31, 2002 approximately $10,000 to $550,457 compared to December 31, 2001. The balances in the "You Can't Lose" time deposits were up $75,226 over balances at December 31, 2001. The "You Can't Lose" deposit type, which allows the client one rate increase during the term of the deposit, has been a popular product during last the two years.

In 2001, growth remained flat as clients looked for higher yielding alternatives. As the federal funds rate dropped during the year, rates paid on all types of interest-bearing transaction accounts and time deposits followed. By the end of 2001, market rates paid on these accounts ranged from 1.00% to 2.00% while time deposit rates ranged from 1.85% to 4.00%. Offsetting the low growth in deposits was a record year in annuity sales in 2001 of approximately $14,600, up from approximately $7,700 in 2000. This product proved to be the right alternative for many of our clients since the stock market was in a downturn and interest rates on deposit accounts had fallen significantly.

Interest-bearing deposits increased 9.05% during 2000, principally from certificates of deposit. During 2000, we offered a number of deposit specials that were attractive to our client base, particularly in certificates of deposit. This offering was the result from the highly competitive market for deposits. Loan demand was high early in 2000, fueling the need for banks to raise deposits to support loan growth.

Our average time deposit balance as a percent of average total deposits moved from 52.90% in 2000 to 54.48% in 2001. While 2001 showed improvement in net interest income; only a portion of the time deposits had been repriced. Many of those higher rate specials offered in 2000 had one-year terms or greater so, while we began to get some relief in 2001, there were still many time deposits that did not reprice until late 2001 and early 2002. The ratio of average time deposits to average total deposits was 50.74% in 2002, comparable to the 1999 level.

Interest expense for deposits was $24,034, $39,326, and $42,169, for 2002, 2001, and 2000, respectively. The cost of interest-bearing deposits was 2.53%, 4.27%, and 4.74% for the same periods.

Borrowed Funds and Interest Expense on Borrowings

Advances from the Federal Home Loan Bank ("FHLB") were $86,308, $41,145 and $19,946 for the years ended December 31, 2002, 2001 and 2000, respectively. Advances from the FHLB were up 109.77% and 106.28% over the prior year balances in 2002 and 2001, respectively. As rates fell to 50 year lows in 2001 and remained at those levels until falling another 50 basis points in November, 2002, both consumer and commercial loan clients were refinancing at lower rates with extended maturities. In order to offset this interest rate risk, funds were borrowed from the Federal Home Loan Bank to match-fund those loans, negating interest rate exposure when rates rise. Such match-funded loans are usually large commercial or real estate loans. As discussed earlier, the Company set up an arbitrage, funding the purchase of mortgage-backed securities with FHLB funds. The total borrowed for the arbitrage was $30,000 with a weighted average interest rate of 2.51%. The weighted average maturity and rate of total funds borrowed from the Federal Home Loan Bank in 2002, 2001, and 2000 was 52 months with an average cost of 3.09%, 63 months with an average cost of 3.88%, and 216 months with an average cost of 7.64%, respectively.

The treasury tax and loan account balances for 2002, 2001, and 2000 were $5,498, $6,181, and $4,603, respectively. The balance in this account is contingent on the amount of funds we pledge as collateral as well as the Federal Reserve's need for funds. Interest expense on total borrowings (inclusive of advances from the Federal Home Loan Bank and treasury tax and loan) was $2,491 in 2002, up from $1,596 in 2001 due to increased borrowing which more than offset the decline in interest rates. Interest expense in 2001 was $1,596, $367 less than the expense for 2000 due to both lower rates and a 32.37% decrease in average borrowed funds.

Toward the end of 2002, more reliance was placed on borrowed funds. The balance in borrowed funds for 2002, including the treasury tax and loan account and loans from the Federal Home Loan Bank, was up $44,480 or 93.99%. The average balances of borrowed funds were $59,563, $29,347 and $43,396 for 2002, 2001, and 2000, respectively. Interest expense was up from $1,596 in 2001 to $2,491 in 2002. The cost of those funds in 2002 was 4.18%, down from 5.44% in 2001.

Provision for Loan Losses to Average Loans

2002	2001	2000	1999	1998
.52%	.59%	.78%	.42%	.38%

The provision for loan losses was $4,350, $4,790, and $6,373 for 2002, 2001, and 2000, respectively. Despite a recession during the year 2001 and a notable lack of recovery in 2002, loan quality improved as both net charge-offs and non-performing loans decreased first during 2001, and again during 2002. During 2002 and 2001, the most significant charge-offs were from real estate mortgage loans, which comprise approximately 67% of our loan portfolio. Consumer loan charge-offs improved from the prior year for both 2002 and 2001 due to the curtailment of the Sales Finance Division.

During 2000, we experienced deterioration in credit quality for both commercial and mortgage loans. However, the largest growth in net charge-offs was from consumer loans, particularly in the sales finance loans.

Noninterest Income (Less Securities Gains/Losses) to Average Assets

2002	2001	2000	1999	1998
2.09%	1.96%	1.55%	1.37%*	1.35%

* Ratio does not include the gain on the sale of the credit card portfolio.

In 2002, there was much emphasis placed on our existing client base. While we did not expand our market territory, we made changes aimed at increasing our share of our current market. Rather than introduce new product lines, we developed plans directed at selling our existing products, with emphasis on our seniors and Prime Time Gold programs aimed at attracting the more affluent market. We conducted over fifty events throughout our market area for this group in 2002. The events included health fairs as well as programs on topics such as fraud, "street smarts", identity theft, estate planning, long-term care, Medicare supplements, wealth management, and retirement fundamentals. In addition, we published and mailed a quarterly newsletter for both clients and non-clients in this segment of our market. We have noted an increase in services provided and in new clients as a result of these programs. We expect future growth from these programs over the next two to five years.

Total noninterest income includes fees generated from deposit services, loan services, insurance products, trust and other wealth management products and services, security gains, and all other non-interest income. We made significant improvement in enhancing our noninterest income during both 2002 and 2001. Noninterest income for 2002 was $27,442, up $3,053 over 2001 for a growth rate of 12.52%. Noninterest income for 2001 outpaced 2000 by $5,860, or 31.63%. Noninterest income represented 25.92%, 21.75% and 17.16% of total revenue for 2002, 2001, and 2000, respectively. During both 2002 and 2001, management continued to work at the implementation of our strategic plan, particularly in the services offered and fees assessed. The successful completion of theses initiatives has resulted in substantial growth for both years.

As an extension of our strategic plan, our franchises developed their own vision and mission statements, and business plans for achieving their goals. Those plans include specific programs for fostering additional client relationships. The execution of this program has resulted in greater sales not only in service charge revenue, but also other fees as well.

In 2002, fees generated from deposit services increased $1,299, or 8.74% over 2001. The additional income generated was derived primarily from service charges on deposit accounts (including overdraft fees), fees earned from use of our debit cards inclusive of interchange fees, and fees generated through our merchant business. Only minor changes were made to the fee structure on deposit account products during 2002.

For 2001, fees generated from deposit services increased $2,252, or 17.86% over 2000. The restructuring of fees on selected transaction accounts and account activity provided the growth. Some administrative fees were assessed to cover the cost of handling client accounts such as returned bank statements and return items.

Fees earned from loan services in 2002 were $700, or 20.45% greater than fees earned in 2001. Fees associated with originating loans were restructured at the end of the first quarter of 2002 in order to help offset operating costs associated with offering loan products. The new fee structure is tiered both on commercial and consumer loans and based on loan size.

In 2002, we added origination and closing fees on both commercial and consumer loans. This fee is tiered, and the charge depends on the size of the credit. The increase in fees attributable to the restructured fees and additional loan volume was approximately $916. In addition, the income in 2002 includes $139 in a prepayment penalty on a loan that was funded through the Federal Home Loan Bank. Finally, income on the sale of mortgage loans remained strong in 2002 due to both the originating and refinancing of approximately $77,000 in mortgage loans. While the gains on mortgage loans were up moderately over 2001, the amortization of mortgage servicing rights was up $173, or 671.30% over 2001. We recorded additional impairment of $159 during the fourth quarter of 2002 related to prepayments on the mortgage loans being serviced by the Company. In contrast to the past, most mortgage loans originated are sold with servicing released. The Company, however, still services approximately $80,000 in loans originated prior to 2002.

Fees earned from loan services for 2001 were $1,172, or 52.04%, greater than 2000. Document preparation fees, mortgage loan fees and gains on sales of mortgage loans were the main contributors to the increase. The mortgage loan business gained momentum during 2001 as rates fell to unprecedented lows. In 2000, we experienced a decrease in fees generated from mortgage originations of approximately $198, primarily due to interest rates.

Income earned on insurance products increased $458 or 13.46%, $1,406 or 70.45%, and $1,651 or 478.01% in 2002, 2001, and 2000, respectively. We implemented an insurance integration plan in 2001 aimed at improving our cross-selling performance between the Bank and the insurance company and continue to use and refine that plan. A secondary benefit resulting from increased sales is the opportunity to improve contingency income. Contingency income is a bonus received from the insurance underwriters and is based both on commission income and claims experience on our clients during the previous year. The change in income for insurance products in 2002 includes an increase of $91 for contingency income.

Our Financial Services division encompasses trust services, annuities and mutual funds, and specialized insurance products for business and estate secession. A manager was placed over this division in 2001 with the responsibility of fostering growth through building client relationships. The team was assembled at the end of 2002. In 2002, the revenue generated by this division decreased $96, or 6.14%. Revenue from mutual fund and annuity sales decreased $234. Trust revenue was up $118 in 2002 over 2001, offsetting some of the decrease from other products. The increase in trust revenue was attributable to new accounts as well as an additional 7.5 basis points received on accounts from our money manager. The renegotiation of the rate received from our money manager occurred mid-year. Income for this division for 2001 was $95, or 6.47%, greater than the prior year due to mutual fund and annuity sales. Trust revenue in 2001 declined $161, or 15.73% from the previous year. The reduction was due to the loss in value of the trust assets under management. As the stock market declined, the value of the trust accounts decreased. Fees charged by the Trust division are based, in part, on the value of the assets in the trust accounts.

Cash surrender value earned on bank owned life insurance ("BOLI") in 2002 was $517 greater than that earned in 2001 due to the period that BOLI was held by the Company. We purchased $20,000 in BOLI in late May 2001 for the purpose of offsetting the rising cost of health insurance. BOLI income earned in 2001 was $707.

A death benefit of approximately $200 was received during 2002 on a participant in the Company's deferred compensation plan. Also, cash surrender value earned on life insurance purchased through the Bank's deferred compensation plan in 2002 was approximately $40 less than 2001; the income recorded in 2001 was approximately $53 greater than that recorded in 2000. Both items discussed above were classified as other income.

Securities gains of $93 for 2002 resulted from $46,870 in security sales. These were primarily mortgage-backed securities that were sold to eliminate those securities with maturity concentrations or accelerated prepayments. Sales also included securities in the agency, obligation of state and political subdivision, and other preferred stock sectors.

Securities gains of $94 for 2001 resulted from $18,620 in security sales. These securities included odd lot mortgage-backed securities, preferred stock, and collateralized mortgage obligations. The proceeds from these funds were used to reinvest in other mortgage-backed securities and to fund bank owned life insurance.

Noninterest Expense to Average Assets

2002	2001	2000	1999	1998
3.86%	3.78%	3.55%	3.62%	3.68%

Total noninterest expense includes salaries and employee benefits, data processing, net occupancy, equipment, and other noninterest expense. Noninterest expense was $50,496, $46,747, and $42,474 for 2002, 2001, and 2000, respectively. Noninterest expense increased 8.02%, 10.06%, and 2.40% for 2002, 2001, and 2000, respectively.

Salaries and employee benefits represent 58.22%, 56.62% and 53.37% of total noninterest expenses at December 31, 2002, 2001, and 2000, respectively. As a percent of net interest-and noninterest income, salaries and employee benefits were 37.06%, 37.16% and 35.51% for the years 2002, 2001, and 2000, respectively. Salaries and employee benefits cost for 2002 increased $2,933 over 2001.

Salaries for 2002 increased $922, or 5.05%, over 2001 due to normal annual salary increases and staff additions. The additions occurred in the two fastest growing markets of the Company, Desoto and Lee Counties, and were primarily lending staff to enhance the Company's loan growth. Incentive cost in 2002 increased $859, or 48.76%, over 2001 as a result of the improvement in the Company's performance. Commission expense in 2002 was $234, or 37.50%, greater than 2001 due to the additional revenue generated through insurance, mortgage and merchant sales. Our insurance producers, mortgage originators and merchant representatives are paid primarily on a commission basis. In addition, health and life insurance cost was $701, or 36.95%, greater than 2001. The increase in health and life insurance is due to the rising cost of insurance as well as increased claims filed for 2002. Retirement plan cost in 2002 was $201 greater than 2001 due to the increase in the Company's match for the 401(k) plan as well as cost associated with the defined contribution plan.

For 2001, salaries and employee benefits were up $3,799, or 16.76% over 2000. Regular salaries and insurance commissions were up 6.12% and 119.70%, respectively in 2001. The size of both increases is due primarily to normal salary increases, the timing of adding insurance agencies and the opening of new banking facilities during 2000. Employee overtime continued to drop from prior year levels, offsetting a part of the increase. The most significant change in salaries and benefits came from the incentive plan, up $1,764, and related employment taxes. There was no incentive expense for 2000. Increases in other costs including health insurance, pension, post retirement benefits, and ESOP funding contributed to the growth.

Data processing cost for 2002 was up $263, or 7.52%, over 2001. The increase is attributable to volume for our merchant business as well as services with our core service provider. The upgrade of our deposit platform system increased cost, as did the implementation of a new consumer internet banking platform. In addition, a new loan platform system will be installed in the first quarter of 2003.

In 2001, data processing expenses increased 9.97%, or $317, over 2000. During 2001, we installed a teller platform system purchased from our core service provider, Metavante. While costs related to the use of this system increased, other costs decreased such as other losses and charge-offs as cash and fraud losses dissipated.

Occupancy expense in 2002 was down $62 from 2001 due largely to the sale of a building in January, 2002. Occupancy expense in 2001 was up a modest 1.77%, or $55, over 2000. This change was due to an increase in depreciation for buildings and furniture, janitorial costs, and utilities. These costs were partially offset by decreases in rent expense and building supplies, and the recognition of a loss on the sale of a building during 2001.

Computer and equipment expenses have increased $146, $151, and $765 over the prior year expense for the years 2002, 2001, and 2000, respectively. These increases resulted from computer and software depreciation, maintenance and support fees. We have made several technological enhancements during 2002 and 2001 including the installation of a teller platform system, and upgrading both our deposit platform system and the credit-scoring module. We also upgraded data storage to a robotic DVD device, providing near on-line access to data (check images), and purchased software to enhance read rates in item processing. These upgrades have enhanced productivity, reduced losses, and provided better service for our clients. We have noted improvement in both cash short and losses and charge-offs as a result of the teller platform and deposit platform systems.

We are in the process of implementing a new loan platform system, which will be operational in the first quarter of 2003. Additionally, information security has been enhanced through software, hardware, and retention of services by experts in that field. It has been, and will continue to be, our practice to seek technological improvements, to evaluate the benefits, and to progress with implementation of systems that are deemed beneficial for our clients and shareholders. This practice is directly influenced by our vision to be the financial services advisor and provider of choice in the communities we serve. As noted, the increase in computer and equipment expense for 2002 and 2001 is less than the increase for 2000. In 2000, we experienced an increase in depreciation largely attributable to assets purchased in December 1999. The largest additions included the wide area network, document imaging software, and credit scoring software. Due to the specifications of the software, a significant investment was also made in microcomputers.

Other noninterest expense in 2002 was $469, up 4.43%, over 2001. Increases were noted in public relations due largely to sponsorship of a hospice house, contribution to Future Focus, and the publication of a newsletter for senior citizens. Telephone and data line cost increased due to enhancements made in our call center and upgrades to either 256K data lines or T1 data lines at most locations for enhanced efficiency. Other fees also increased due to fees paid to consultants based on revenue enhancements generated from implementing their recommendations and fees paid to information technology consultants specificially to address our strategic technology plan, infrastructure (including network) assessment, and security. Other insurance expense, other than building and auto, increased 28.79% over 2001. Decreases in 2002 include OREO expense, down $195 due to impairment recorded in 2001 of $280, other losses and charge offs down $96 from 2001, and intangible amortization down $325 from 2001 as a result of compliance with FASB Statement No. 142. The Company will continue to amortize an intangible originating from a purchase in compliance with FASB Statement No. 147. All other intangible assets will be evaluated periodically for impairment based on the present value of future cash flows.

Remaining relatively flat for 2001, other noninterest expense in 2001 decreased ..46%, or $49, over 2000. Increases recorded included the recognition of impairment on other real estate owned, mortgage fees, intangible amortization, postage expense, and title insurance cost. These increases were offset by reductions in travel, dues, fees, marketing, telephone, stationery and supplies.

Efficiency Ratio

2002	2001	2000	1999	1998
61.24%	62.71%	63.13%	63.82%	64.56%

Our efficiency ratio continues to improve from prior year levels. This ratio is a standard performance measurement tool which encompasses tax-equivalent net interest income, noninterest income (excluding security gains) and noninterest expense. The increase in tax-equivalent net interest income and noninterest income, less security gains continue to provide the catalyst for the improvement. Tax-equivalent net interest income has improved as the result of proactive pricing decisions made by our Asset Liability Committee as well as strategic structuring of cash flow from investments and borrowed funds. We have also benefited from being in the position of repricing liabilities faster than assets in the rate environment we have been operating under. Noninterest income has improved due to our offering of new products as well as acquiring new clients. As evidenced in our slogan "more than a bank", we have expanded our product line from traditional banking services to a full line of financial services including insurance products, financial planning, investments and fiduciary services. Noninterest expenses in 2002, while up 8.02% over 2001, were more than offset by the improvement in revenue. While we emphasized operating expense control, we also recognized that additional cost was necessary in order to expand our product line and improve our level of service. As the efficiency ratios above show, the additional cost incurred by the Company over the last five years was more than offset by the additional revenue generated.

Income tax expense for 2002, 2001, and 2000 was $6,819, $5,109, and $3,800, respectively. The effective tax rates for those years were 27.85%, 25.94%, and 25.36%. During the last three years, we continued to invest in tax-exempt securities, and tax-free leases and loans. The average tax-exempt securities as a percentage of the investment portfolio increased from 31.49% in 2000 to 32.61% in 2001, and then decreased to 28.43% in 2002. In 2002, we recorded a nontaxable death benefit from life insurance. In 2001, we purchased $20,000 in bank owned life insurance. This purchase resulted in recording $1,224 and $707 in tax-exempt income for 2002 and 2001, respectively.

Risk Management

The management of risk is an on-going process. Primary risks that are associated with the Company include credit, interest rate, and liquidity risks.

Credit Risk

Inherent in any lending activity is credit risk, that is, the risk of loss should a borrower or trading counter-party default. Credit risk is monitored and managed by a Loan Committee and a Loss Management Committee. Credit quality and policies are major concerns of these committees. We try to maintain diversification within our loan portfolio in order to minimize the effect of economic conditions within a particular industry.

The allowance for loan losses is available to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on a quarterly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under FASB Statement No. 5, "Accounting for Contingencies". The collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". The balance of these loans determined as impaired under FASB Statement No. 114 and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include economic conditions reflected within industry segments, unemployment rate in our market, loan segmentation, and historical losses that are inherent in the loan portfolio. If the allowance is deemed inadequate, management provides additional reserves through the provision for loan losses. The allowance for loan losses was $12,203 and $11,354 at December 31, 2002 and 2001, respectively.

Allowance for Loan Losses to Loans

2002	2001	2000	1999	1998
1.41%	1.37%	1.29%	1.26%	1.34%

The net charge-offs for 2002 and 2001 were $3,501 and $3,972, respectively. Below is a chart showing net charge-offs as a percent of total net charge-offs by each category. Charge-offs and recovery amounts by loan category are presented on page 30.

Net charge-offs	2002	2001	2000	1999	1998
Commercial, financial, agricultural ...	26.96%	22.96%	36.25%	25.17%	14.06%
Lease financing	--	--	--	--	--
Real estate-construction	2.60	1.46	0.56	1.18	1.11
Real estate-mortgage	49.87	42.17	27.92	6.36	8.65
Installment loans to individuals	20.57	33.41	35.27	67.29	76.18
Total net charge-offs	100.00%	100.00%	100.00%	100.00%	100.00%

Higher credit standards resulted in lower net charge-offs for 2002 of $471, or 11.86% from 2001. For 2002, the most significant change in net charge-offs was in the consumer loan sector, which decreased $607, or 36.17% from 2001. This improvement was primarily due to the sales finance loans that continued to decrease; losses in sales finance loans decreased 43.08% from 2001. Net charge-offs in real estate-mortgage loans in 2002 were up $71, or 1.76%, primarily due to the increased loan volume in that sector of $41,238, or 7.73%. Net charge-offs for commercial, financial and agricultural and real estate construction loans were relatively unchanged from 2001. Loan losses for 2001 were significantly below 2000, dropping 32.62%, or $1,923. Commercial loan and consumer loan net charge-offs decreased 57.32% and 36.17%, respectively, in 2001. The majority of the consumer loans charged off in both 2001 and 2000 were in used automobiles and sales finance loans. Net charge-offs for 2001 in real estate mortgage and real estate-construction loans were in line with net charge-offs from those categories in 2000. The charge-offs in real estate mortgage loans for both 2001 and 2000 consisted of older credits comprised of 1 - - 4 family and nonfarm residential properties. These losses resulted from poor underwriting. During 2001, we enhanced our underwriting criteria by implementing higher credit standards, by evaluating loan officer credit limits, and by more closely evaluating real estate appraisals. Management continues to monitor loans and utilize diligent collection efforts.

Net Charge-offs to Average Loans

2002	2001	2000	1999	1998
.42%	.49%	.72%	.38%	.30%

Nonperforming loans are those on which the accrual of interest has stopped or the loans are contractually past due 90 days. Generally, the accrual of income is discontinued when the full collection of principal or interest is in doubt, or when the payment of principal or interest has been contractually 90 days past due, unless the obligation is both well secured and in the process of collection.

During 2002, we continued to refine the credit scoring process that was implemented in 1999. Toward the end of the year, formalized underwriting standards for small business loans were implemented. The credit scoring is used as a tool for evaluating credit risk and is proving itself as an effective tool. Management has recognized the improvement in loan quality as loans are being scored.

We have a number of documented loan policies and procedures that set forth the approval and monitoring process of the lending function. Adherence to these policies and procedures is mandated by management and the Board of Directors.

The Company operates a number of committees and an underwriting staff that oversee the lending operation. Those include in-house loan and loss management committees, and a Board of Directors loan committee. In addition, we maintain a loan review staff.

The underwriters review and score loan requests that are made by our lending staff. In compliance with policy, the lending staff is given lending limits based on their knowledge and experience. In addition, each lending officer's prior performance is evaluated for credit quality and compliance as a tool for establishing and enhancing lending limits.

Before funds are advanced, loans are scored by the underwriters. Grades are assigned based on the scoring of the loans that are funded. This information is used to assist management in monitoring the credit quality. Loan requests of amounts greater than the officers' lending limits are reviewed by an in-house loan committee. This committee is comprised of executive management. Decisions on funding loan requests are made or declined at this level provided they are within approved lending limits. Loan requests that exceed this group's lending authority are submitted to a loan committee comprised of members of the Board of Directors.

The allowance for loan losses is established after input from management, loan review, and the Loss Management Committee. An evaluation of the adequacy of the allowance is based on the types of loans, the credit risk in the portfolio, economic conditions and trends within each of these factors. The Loss Management Committee monitors loans that are past due or those that have been downgraded due to a decline in the collateral value or cash flow of the debtor.

Foreclosure proceedings are initiated after all collection efforts have failed and the sale of the collateral has resulted in a deficiency balance. Loans that have a deficiency balance are sent to the loan committee comprised of the Board of Directors for charge-off approval. These charge-offs reduce the allowance for loan losses.

All loans are classified into grades by lending personnel. These grades are used in the calculation for the adequacy of the allowance for loan losses. Loan grades range between 1 and 9, with 1 being loans with the least credit risk. Allowance factors established by management are applied to each grade to determine the amount needed in the allowance for loan losses. Loan review personnel monitor the grades assigned to loans through periodic examination. The allowance factors are established based on our loss experience, adjusted for trends and expectations about losses inherent in our existing portfolios, as well as regulatory guidelines for criticized loans. For impaired loans, a specific reserve is established to adjust the carrying value of the loan to its fair value.

The adequacy of the allowance for loan losses is calculated quarterly. These calculations are reviewed by management and the internal loan review staff. If the allowance is deemed inadequate, management increases the allowance by a charge to the provision for loan losses.

On a monthly basis, management and the Board of Directors review loan ratios. These ratios include the loan to deposit ratio, the allowance for loan losses as a percentage of total loans, net charge-offs as a percentage of average loans, the provision for loan losses as a percentage of average loans, nonperforming loans as a percentage of total loans, and the allowance coverage on nonperforming loans. In addition, management reviews past due ratios by officer, community bank, and Company.

Non-Accrual, Past Due and Restructured Loans to Loans

2002	2001	2000	1999	1998
.42%	.77%	.87%	1.01%	.53%

Summary of Loan Loss Experience
(In Thousands)

The table below reflects the activity in the allowance for loan losses for the years ended December 31:

	2002	2001	2000	1999	1998
Balance at beginning of year	$ 11,354	$ 10,536	$ 10,058	$ 9,742	$ 9,221
Provision for loan losses	4,350	4,790	6,373	3,192	2,591
Charge-offs					
Commercial, financial, agricultural	1,025	951	2,237	882	433
Lease financing	--	--	--	--	--
Real estate-construction	142	59	37	41	34
Real estate-mortgage	1,972	1,719	1,746	223	267
Installment loans to individuals.	1,028	1,574	2,338	2,288	1,803
Total charge-offs	4,167	4,303	6,358	3,434	2,537
Recoveries					
Commercial, financial, agricultural	81	39	100	158	142
Lease financing	--	--	--	--	--
Real estate-construction	51	1	4	7	11
Real estate-mortgage	226	44	100	40	88
Installment loans to individuals.	308	247	259	353	226
Total recoveries	666	331	463	558	467
Net charge-offs	3,501	3,972	5,895	2,876	2,070
Balance at end of year	$ 12,203	$ 11,354	$ 10,536	$ 10,058	$ 9,742

The following table presents in thousands the allocation of the allowance for loan losses by loan category at December 31 for each of the years presented. There is a significant difference in the reserve allocated for commercial, financial, agricultural and for real estate-mortgage for 2002 compared to prior years. In prior years, the reserve was allocated based on our internal "watch list" and was classified based on the business purpose of the loan. In 2002, the reserve was allocated based on FDIC Call Report classifications, consistent with the grouping of loans presented in this report.

	2002	2001	2000	1999	1998
Commercial, financial, agricultural ...	$ 2,724	$ 6,838	$ 6,470	$ 7,170	$ 6,852
Lease financing	279	330	371	349	247
Real estate - construction	343	--	--	--	--
Real estate - mortgage	7,603	1,704	1,246	195	283
Installment loans to individuals	1,055	2,346	2,238	1,982	1,933
Unallocated	199	136	211	362	427
Total	$12,203	$11,354	$10,536	$10,058	$ 9,742

Loans by Category to Total Loans

The following table presents the percentage of loans, by category, to total loans at December 31 for each of the years presented:

	2002	2001	2000	1999	1998
Commercial, financial, agricultural ...	16.15%	16.73%	17.67%	17.31%	16.99%
Lease financing	1.78	1.99	2.27	2.19	1.70
Real estate - construction	4.30	3.69	3.15	4.68	3.62
Real estate - mortgage	66.54	64.42	61.46	57.61	55.59
Installment loans to individuals	11.23	13.17	15.45	18.21	22.10
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Loan Loss Analysis (In Thousands)	2002	2001	2000	1999	1998
Loans-average	$ 837,106	$ 816,658	$ 816,588	$ 765,199	$ 681,563
Loans-year end	863,308	827,696	815,854	799,085	729,156
Net charge-offs	3,501	3,972	5,895	2,876	2,070
Allowance for loan losses	12,203	11,354	10,536	10,058	9,742

Loan Ratios

	2002	2001	2000	1999	1998
Net Charge-offs to:					
Loans-average	.42%	.49%	.72%	.38%	.30%
Allowance for loan losses	28.69%	34.98%	55.95%	28.59%	21.25%
Allowance for loan losses to:					
Loans-year end	1.41%	1.37%	1.29%	1.26%	1.34%
Non-performing loans	338.22%	178.63%	147.89%	126.47%	261.95%
Non-performing loans to:					
Loans-year end	.42%	.77%	.87%	1.00%	.51%
Loans-average	.43%	.78%	.87%	1.04%	.55%

The following table shows the principal amounts of non-accrual and restructured loans at December 31:

	2002	2001	2000	1999	1998
Nonperforming loans:					
Nonaccruing	$ 1,417	$ 614	$ 1,209	$ 136	$ 204
Accruing loans past due 90 days or more	2,191	5,742	5,915	7,817	3,515
Total nonperforming loans	3,608	6,356	7,124	7,953	3,719
Restructured loans	--	--	--	146	178
Total	$ 3,608	$ 6,356	$ 7,124	$ 8,099	$ 3,897

Management, the Loss Management Committee, and our loan review staff closely monitor loans that are considered to be nonperforming. When evaluating nonaccrual and restructured loans, the interest income foregone and recognized from 1998 through 2002 was not significant.

Restructured loans are those for which concessions have been granted to the borrower due to a deterioration of the borrower's financial condition. Such concessions may include reduction in interest rates, or deferral of interest or principal payments.

Real estate acquired through the satisfaction of loan indebtedness ("OREO") is recorded at the lower of cost or fair market value based on appraised value, less estimated selling costs. Any deficiency between the loan balance and the purchase price of the property is charged to the allowance for loan losses. Subsequent sales of the property may result in gains or losses. OREO increased to $3,180 at December 31, 2002, up from $2,886 at December 31, 2001. Proceeds from sales of OREO for 2002 were $3,440, with losses of $36. We acquired $3,796 in OREO during 2002 and sold $2,056 for a turnover rate of 54.16%. We incurred $16 in losses on the property both purchased and sold in 2002. OREO increased $610 in 2001 over the 2000 level. Proceeds from sales of OREO for 2001 were $2,402, with gains of $47. We acquired $3,184 in OREO during 2001 and sold $1,289, or 40.49%, of the ORE acquired in 2001.

Interest Rate Risk

The majority of assets and liabilities of a financial institution are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets and inventories.

Management believes the most significant impact on financial results stems from our ability to react to changes in interest rates. Therefore, we are constantly monitoring our rate sensitivity.

We have an Asset/Liability Committee ("ALCO"), which is duly authorized by the Board of Directors to monitor our position and to make decisions relating to that process. The ALCO's goal is to maximize net interest income while providing us with an acceptable level of market risk due to changes in interest rates.

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in lending and deposit-taking activities. To that end, management actively monitors and manages our interest rate risk exposure.

Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings because the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. We monitor the impact of changes in interest rates on our net interest income using several tools. One measure of our exposure to differential changes in interest rates between assets and liabilities is shown in the Maturity and Rate Sensitivity Analysis ("GAP Analysis"). Another test measures the impact on net interest income and net portfolio value ("NPV") of an immediate change in interest rates in 100 basis point increments. NPV is defined as the net present value of assets, liabilities, and off-balance sheet contracts.

Following is the estimated impact of immediate changes in interest rates at the specified levels at December 31:

Change in Interest Rates (In Basis Points)	Percentage Change In: Net Interest Income (1) 2002	Net Interest Income (1) 2001	Net Portfolio Value(2) 2002	Net Portfolio Value(2) 2001
+200	.2%	2.3%	(8.4%)	2.0%
+100	.2%	1.2%	(4.3%)	1.3%
-100	(.4%)	(1.9%)	4.3%	(2.8%)
-200	(5.5%)	(6.7%)	5.5%	(11.3%)

(1) The percentage change in this column represents net interest income for 12 months in a stable interest rate environment versus the net interest income in the various rate scenarios.

(2) The percentage change in this column represents our NPV in a stable interest rate environment versus the NPV in the various rate scenarios.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on net interest income and capital, while structuring our asset-liability composition to obtain the maximum yield-cost spread. We rely primarily on our asset-liability strategies to control interest rate risk. The results of the interest rate shock are within the limits set by the Board of Directors.

We continually evaluate interest rate risk management opportunities, including the possible use of derivative financial instruments. At December 31, 2002, we had not entered into any derivative contracts or hedging instruments.

Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments, and deposits decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the ALCO could undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of net interest income and NPV. Actual values may differ from those projections presented in cases where market conditions vary from assumptions used in the calculation of net interest income and the NPV.

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 the key to assuring liquidity. Approximately 66% of our time deposits are composed of accounts with balances less than $100. When evaluating the movement of these funds, even during large interest rate changes, it is apparent that we continue to attract deposits that can be used to meet cash flow needs. Another source available for meeting our liquidity needs is available for sale securities. The available for sale portfolio is composed of securities with a readily available market that can be converted to cash if the need arises. During 2002, the most significant purchase of investment securities was in the mortgage-backed sector. These securities provide a monthly cash flow of both principal and interest. We used this structure in order to provide liquidity to fund future loan growth as the economy improves. In addition, we maintain 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 in order to meet liquidity needs.

Repayments and maturities of loans provide substantial sources of liquidity. Approximately 58.69% of our loans mature or reprice within the next twelve months.

Capital Resources

Total shareholders' equity of the Company was $132,778 and $123,582 at December 31, 2002 and 2001, respectively. Shareholders' equity increased 7.44% during 2002, and 1.58% during 2001. The growth in capital for both years was attributable to earnings and unrealized securities gains, less dividends declared and treasury shares purchased. Approximately 130,000 and 352,000 shares of stock were purchased during 2002 and 2001, respectively, for a total purchase price of $4,700 and $9,168, respectively. During 2000, we purchased approximately 218,000 shares of stock and issued approximately 71,000 shares in an acquisition. In addition, the change in the net unrealized gain (loss) on securities available for sale increased capital in 2002 by $3,272 and in 2001 by $2,202. Shareholders' equity as a percentage of assets was 9.88% and 9.85% at December 31, 2002 and 2001, respectively.

The Federal Reserve Board, the FDIC, and the OCC have issued guidelines for governing the levels of capital that banks are to maintain. Those guidelines specify capital tiers, which include the following classifications:

Capital Tiers	Tier 1 Risk - Based Capital	Total Risk - Based Capital	Leverage Ratio
Well capitalized	6% or above	10% or above	5% or above
Adequately capitalized	4% or above	8% or above	4% or above
Undercapitalized	Less than 4%	Less than 8%	Less than 4%
Significantly undercapitalized	Less than 3%	Less than 6%	Less than 3%
Critically undercapitalized	2% or less		

Tier 1 Leverage ratios were 9.28 % and 9.20% at December 31, 2002 and 2001, respectively, meeting the guidelines for a well-capitalized company. At December 31, 2002, the total Tier 1 and total risk-based capital were $120,719 and $131,734, respectively. Tier 1 and total risk-based capital at December 31, 2001, were $113,106 and $123,646, respectively.

Cash dividends have increased fifteen consecutive years (see selected financial data on page 15 for the previous five years). Book value per share was $23.82 and $21.66 at December 31, 2002 and 2001, respectively. The increase in capital for both years, excluding the effect of the net unrealized gain on securities available for sale, was internally generated due to a retention of earnings of 64.41% and 61.48% during 2002 and 2001, respectively.

SEC Form 10-K

A COPY OF THIS ANNUAL REPORT ON FORM 10-K, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, MAY BE OBTAINED WITHOUT CHARGE BY DIRECTING A WRITTEN REQUEST TO: JAMES W. GRAY, EXECUTIVE VICE PRESIDENT, THE PEOPLES BANK & TRUST COMPANY, P. O. BOX 709, TUPELO, MS 38802-0709.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the heading "Interest Rate Risk" in Item 7 of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated financial statements of the Company meeting the requirements of Regulation S-X are included on the succeeding pages of this Item. All other schedules have been omitted because they are not required or are not applicable.

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2002, 2001, and 2000

CONTENTS

Report of Independent Auditors

Board of Directors and Shareholders
The Peoples Holding Company
Tupelo, Mississippi

We have audited the accompanying consolidated balance sheets of The Peoples Holding Company and subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Peoples Holding Company and subsidiary at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note Q to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in 2002.

/s/ Ernst & Young LLP

Memphis, Tennessee
January 21, 2003

The Peoples Holding Company
Consolidated Balance Sheets
(In Thousands, Except Share Data)

	December 31 2002	December 31 2001
Assets		
Cash and due from banks	$ 46,422	$ 41,475
Federal funds sold	--	7,000
Interest-bearing balances with banks	12,319	22,937
Cash and cash equivalents	58,741	71,412
Securities available for sale	344,781	277,293
Loans, net of unearned income	863,308	827,696
Allowance for loan losses	(12,203)	(11,354)
Net loans	851,105	816,342
Premises and equipment, net	29,289	28,346
Other assets	60,596	61,334
Total assets	$ 1,344,512	$ 1,254,727
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 147,565	$ 145,690
Interest-bearing	951,483	917,365
Total deposits	1,099,048	1,063,055
Treasury tax and loan note account	5,498	6,181
Advances from the Federal Home Loan Bank	86,308	41,145
Other liabilities	20,880	20,764
Total liabilities	1,211,734	1,131,145
Shareholders' equity		
Common stock, $5 par value - 15,000,000 shares authorized, 6,212,284 issued; 5,574,733 and 5,704,680 outstanding at December 31, 2002 and 2001, respectively	31,061	31,061
Treasury stock, at cost	(17,556)	(12,856)
Additional paid-in capital	39,930	39,850
Retained earnings	73,935	63,391
Accumulated other comprehensive income	5,408	2,136
Total shareholders' equity	132,778	123,582
Total liabilities and shareholders' equity	$ 1,344,512	$ 1,254,727

See notes to consolidated financial statements.

The Peoples Holding Company
Consolidated Statements of Income
(In Thousands, Except Share Data)

	Year ended December 31		
	2002	2001	2000
Interest income			
Loans	$ 61,379	$ 70,587	$ 72,919
Securities:			
Taxable	12,263	11,582	11,671
Tax-exempt	4,444	4,724	4,385
Other	332	873	459
Total interest income	78,418	87,766	89,434
Interest expense			
Deposits	24,034	39,326	42,169
Borrowings	2,491	1,596	1,963
Total interest expense	26,525	40,922	44,132
Net interest income	51,893	46,844	45,302
Provision for loan losses	4,350	4,790	6,373
Net interest income after provision for loan losses	47,543	42,054	38,929
Noninterest income			
Service charges on deposit accounts	12,578	11,616	9,722
Fees and commissions	9,070	7,679	5,209
Trust revenue	981	863	1,024
Securities gains	93	94	--
BOLI income	1,224	707	--
Merchant discounts	1,275	1,183	1,084
Other	2,221	2,247	1,490
Total noninterest income	27,442	24,389	18,529
Noninterest expense			
Salaries and employee benefits	29,400	26,467	22,668
Data processing	3,761	3,498	3,181
Net occupancy	3,107	3,169	3,114
Equipment	3,180	3,034	2,883
Other	11,048	10,579	10,628
Total noninterest expense	50,496	46,747	42,474
Income before income taxes	24,489	19,696	14,984
Income taxes	6,819	5,109	3,800
Income before cumulative effect of accounting change	17,670	14,587	11,184
Cumulative effect of accounting change	(1,300)	--	--
Net income	$ 16,370	$ 14,587	$ 11,184
Basic and diluted earnings per share:			
Income before cumulative effect of accounting change	$ 3.15	$ 2.48	$ 1.83
Cumulative effect of accounting change	(0.23)	--	--
Net income	$ 2.92	$ 2.48	$ 1.83
Weighted average shares outstanding	5,609,289	5,873,423	6,108,196
Weighted average shares outstanding-diluted	5,614,266	5,875,088	6,108,196

See notes to consolidated financial statements.

The Peoples Holding Company
Consolidated Statements of Shareholders' Equity
(In Thousands, Except Share Data)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1999	6,204,784	$ 31,061	$ (230)	$ 39,959	$ 48,580	$ (3,281)	$ 116,089
Comprehensive income:							
Net income					11,184		11,184
Other comprehensive income:							
Unrealized holding gains on securities available for sale (net of tax of $1,985)						3,215	3,215
Comprehensive income					11,184	3,215	14,399
Cash dividends ($.88 per share)					(5,341)		(5,341)
Common stock issued for acquisition	70,500		1,720	(28)			1,692
Treasury stock purchased	(218,385)		(5,178)				(5,178)
Balance at December 31, 2000	6,056,899	$ 31,061	$ (3,688)	$ 39,931	$ 54,423	$ (66)	$ 121,661
Comprehensive income:							
Net income					14,587		14,587
Other comprehensive income:							
Unrealized holding gains on securities available for sale (net of tax of $1,398)						2,260	2,260
Less reclassification adjustment for gains realized in net income (net of tax of ($36))						(58)	(58)
Comprehensive income					14,587	2,202	16,789
Cash dividends ($.96 per share)					(5,619)		(5,619)
Treasury stock purchased	(352,219)		(9,168)	(81)			(9,249)
Balance at December 31, 2001	5,704,680	$ 31,061	$(12,856)	$ 39,850	$ 63,391	$ 2,136	$ 123,582
Comprehensive income:							
Net income					16,370		16,370
Other comprehensive income:							
Unrealized holding gains on securities available for sale (net of tax of $2,062)						3,329	3,329
Less reclassification adjustment for gains realized in net income (net of tax of ($36))						(57)	(57)
Comprehensive income					16,370	3,272	19,642
Cash dividends ($1.04 per share)					(5,826)		(5,826)
Stock option compensation				80			80
Treasury stock purchased	(129,947)		(4,700)				(4,700)
Balance at December 31, 2002	5,574,733	$ 31,061	$(17,556)	$ 39,930	$ 73,935	$ 5,408	$ 132,778

See notes to consolidated financial statements.

The Peoples Holding Company
Consolidated Statements of Cash Flows
(In Thousands)

	Year ended December 31 2002	2001	2000
Operating activities			
Net income	$ 16,370	$ 14,587	$ 11,184
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	4,350	4,790	6,373
Net amortization of securities	1,200	202	258
Depreciation and amortization	3,864	3,979	3,773
Deferred income taxes	233	(866)	(64)
Funding of loans held for sale	(74,851)	(76,208)	(28,832)
Proceeds from sales of mortgage loans	75,605	76,917	29,078
Gain on sales of interest-bearing assets	(847)	(803)	(297)
Loss (gain) on sales of premises and equipment	15	29	(93)
Stock option compensation	80	--	--
Decrease (increase) in other assets	757	(18,614)	(971)
Increase (decrease) in other liabilities	116	1,640	(1,250)
Net cash provided by operating activities	26,892	5,653	19,159
Investing activities			
Purchases of securities available for sale	(219,319)	(90,309)	(30,792)
Proceeds from sales of securities available for sale	46,870	18,620	--
Proceeds from call/maturities of securities available for sale	109,578	76,425	23,826
Purchases of securities held to maturity	--	--	(3,160)
Proceeds from calls/maturities of securities held to maturity	--	--	3,317
Net increase in loans	(42,939)	(18,779)	(33,350)
Proceeds from sales of loans	--	--	8,002
Proceeds from sales of premises and equipment	274	35	225
Purchases of premises and equipment	(3,974)	(1,409)	(4,171)
Net cash paid in business combinations	--	--	(518)
Net cash used in investing activities	(109,510)	(15,417)	(36,621)
Financing activities			
Net increase (decrease) in noninterest-bearing deposits	1,875	13,972	(8,297)
Net increase in interest-bearing deposits	34,118	2,478	75,944
Net (decrease) increase in short-term borrowings	(683)	1,578	(7,397)
Proceeds from other borrowings	56,248	26,672	2,554
Repayment of other borrowings	(11,085)	(5,473)	(21,877)
Purchase of treasury stock	(4,700)	(9,249)	(5,178)
Cash dividends paid	(5,826)	(5,619)	(5,341)
Net cash provided by financing activities	69,947	24,359	30,408
Net (decrease) increase in cash and cash equivalents	(12,671)	14,595	12,946
Cash and cash equivalents at beginning of year	71,412	56,817	43,871
Cash and cash equivalents at end of year	$ 58,741	$ 71,412	$ 56,817
Supplemental disclosures:			
Cash paid for:			
Interest	$ 29,029	$ 43,457	$ 41,356
Income taxes	7,962	4,839	5,291
Transfers of loans to other real estate	3,826	2,965	2,735
Transfers of premises and equipment to other assets	--	310	--

See notes to consolidated financial statements.

Note A - Significant Accounting Policies
(In Thousands)

Nature of Operations: The Peoples Holding Company the (the "Company") is a one-bank holding company, offering a diversified range of banking services to retail and commercial customers, primarily in North Mississippi, through The Peoples Bank & Trust Company (the "Bank") and Peoples Insurance Agency, subsidiary of the bank.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated. The Company carries its investment in subsidiary at its equity in the underlying net assets.

Business Combinations: Effective January 1, 2002, we adopted FASB Statement No. 141 which requires all business combinations to be accounted for as purchases. Business combinations are accounted for using the purchase method of accounting that reflects the net assets of the companies recorded at their fair value at the date of acquisition.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Securities: Securities are classified as held to maturity when purchased if management has the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity.

The amortized cost of securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion is included in interest income from securities. Dividend income is included in interest income from securities. Realized gains and losses, as well as declines in value judged to be other than temporary, are included in net securities gains (losses). The cost of securities sold is based on the specific identification method.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees are recognized in the period the loan or commitments are granted to reflect reimbursement of the related costs associated with originating those loans and commitments.

Generally, the accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer and other retail loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued for the current year, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Mortgage Loans Held for Sale: At December 31, 2002 and 2001, mortgage loans held for sale represented residential mortgage loans held for sale. Loans held for sale are carried at the lower of aggregate cost or market value and are classified as loans on the balance sheet.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio. The allowance for loan losses is evaluated based on a continuing assessment of problem loans, historical loss experience, new lending products, emerging credit trends, changes in the size and character of loan categories, and other factors including its risk rating system, regulatory guidance and economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. When the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the recorded balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged off. Large groups of smaller balance homogeneous loans are evaluated collectively for impairment.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed primarily by use of the straight-line method for furniture, fixtures, equipment, and premises. Leasehold improvements are amortized over the period of the leases or the estimated useful lives of the improvements, whichever is shorter.

Other Real Estate: Other real estate of $3,180 and $2,886 at December 31, 2002 and 2001, respectively, is included in other assets and consists of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising from the acquisition of properties are charged against the allowance for loan losses.

Mortgage Servicing Rights: The Company capitalizes purchased and internally-originated mortgage servicing rights based on the fair value of the mortgage servicing rights relative to the loan as a whole. Mortgage servicing rights are reported in other assets and amortized in proportion to and over the period of estimated net servicing income. The fair value of mortgage servicing rights is determined using assumptions that market participants would use in estimating future net servicing income. Mortgage servicing rights are stratified by loan type (government or conventional) and interest rate for purposes of measuring impairment on a quarterly basis. An impairment loss is recognized to the extent by which the unamortized capitalized mortgage servicing rights for each stratum exceeds the current fair value. Mortgage servicing rights were $456 and $655 at December 31, 2002 and 2001, respectively. Impairment is recognized as a reduction of noninterest income.

Income Taxes: Income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiary file a consolidated federal income tax return. The Bank provides for income taxes on a separate-return basis and remits to the Company amounts determined to be currently payable.

Derivative Instruments and Hedging Activities: The Company adopted Statement of Financial Accounting Standards ("FASB") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FASB No. 137 and FASB No. 138 in 2001. The Company did transfer all securities classified as held to maturity to available for sale as allowed upon adoption of FASB No. 133. The Company does not currently engage in any activities that qualify as derivatives.

Note A - Significant Accounting Policies (continued)

Treasury Stock: The Company has an active repurchase plan for the acquisition of its common stock. Treasury stock is recorded at cost. Shares held in treasury are not retired.

Intangible Assets: Effective January 1, 2002 the Company adopted FASB No. 142. As of that date, goodwill is no longer amortized but is evaluated annually for impairment. Intangibles with infinite lives are amortized over their estimated lives. Prior to adoption of FASB No. 142, intangibles were being amortized over a fifteen-year life.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation.

Impact of Recently-Issued Accounting Standards:

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company does not expect the adoption of this pronouncement to have a material impact on its results of operations or financial condition.

On January 1, 2002 the Company adopted FASB Statement 144, "Accounting for the Impairment or Disposal of Long Lived Assets" ("Statement 144"). Statement 144 supersedes FASB Statement No. 121 ("Statement 121") and provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of Statement 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. Statement 144 also supersedes the provision of Accounting Principle Board ("APB") Opinion 30 with regard to reporting the effects of a disposal of a segment of a business and requires expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred (rather than as of the measurement date as presently required by APB Opinion 30). In addition, more dispositions will qualify for discontinued operations treatment in the income statement. The adoption of Statement 144 did not have a material impact on the Company's financial condition or results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections" ("Statement 145"). Statement 145 rescinds Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. In addition, Statement 145 amends Statement 13 on leasing to require that certain lease modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sale-leaseback transactions. Provisions of Statement 145 related to the rescission of Statement 4 are effective for financial statements issued by the Company after January 1, 2003. The provisions of the statement related to sale-leaseback transactions were effective for any transactions occurring after May 15, 2002. All other provisions of the statement were effective as of the end of the second quarter of 2002. The changes required by Statement 145 did not have a material impact of the results of operation, financial position or liquidity of the Company.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("Statement 146"). Statement 146 requires companies to recognize costs associated with the exit or disposal of activities as they are incurred rather than at the date a plan of disposal or commitment to exit is initiated. Types of costs covered by Statement 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, facility closing, or other exit or disposal activity. Statement 146 will apply to all exit or disposal activities initiated after December 31, 2002. At this time, the Company does not expect the adoption of the provisions of Statement 146 to have a material impact on financial results.

Note A - Significant Accounting Policies (continued)

In October 2002, the FASB issued Statement of Financial Accounting Standards No. 147, "Acquisition of Certain Financial Institutions" ("Statement 147"). Statement 147 amends the previous accounting guidance which required for certain acquisitions of financial institutions, where the fair market value of liabilities assumed was greater than the fair value of the tangible assets and identifiable intangible assets acquired, to recognize and account for the excess as an unidentifiable intangible asset. Under the old guidance this unidentifiable intangible asset was to be amortized over a period of no greater than the life of the long-term interest bearing assets acquired. Under Statement 147 this excess, if acquired in a business combination, represents goodwill that should be accounted for in accordance with Statement 142. In addition, Statement 147 amends Statement 144 to include in its scope long-term customer relationship intangible assets of financial institutions such as depositor and borrower relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement 144 requires. The provisions of Statement 147 were effective October 1, 2002. The adoption of the provisions of Statement 147 did not have a material impact on the Company's financial results.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("the Interpretation"). The Interpretation will significantly change current practice in the accounting for, and disclosure of, guarantees. The Interpretation requires certain guarantees to be recorded at fair value, which is different from current practice, which is generally to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in the FASB Statement No. 5, Accounting for Contingencies ("Statement 5"). The Interpretation also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote, which is another change from current practice. The Interpretation applies to public and non-public entities, and its disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Interpretation's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The guarantor's previous accounting for guarantees issued prior to the date of the Interpretation's initial application should not be revised or restated to reflect the Interpretation's provisions. The adoption of the provisions of the Interpretation did not have a material impact on the Company's financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123" (Statement 148). Statement 148 amends Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation", ("Statement 123") to provide alternative methods of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The company expenses the cost of stock options as allowed under Statement 123.

In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company is currently evaluating the provisions of the Interpretation, but believes its adoption will not have a material impact on its financial statements.

Note B - Business Combinations
(In Thousands)

Southern Insurance Group, Inc., Southern Insurance of Corinth, Inc., and Southern Financial Services, P.A. (collectively, "Southern") were acquired on May 1, 2000, by the Company by issuing 70,500 shares of its stock valued at $1,692. The acquired companies were merged into the Bank's insurance subsidiary. The transaction was accounted for as a purchase. Southern offers property and casualty insurance products, life and health insurance, and annuity and mutual funds.

The Bank acquired Dominion Company on September 1, 2000 which offers products similar to Southern. The Bank paid $450 in a cash transaction for the company which was merged into the Bank's insurance subsidiary.

Note C - Securities
(In Thousands)

The amortized cost and fair value of securities available for sale at December 31, 2002, are as follows:

	Securities Available For Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury securities	$ --	$ --	$ --	$ --
Obligations of other U. S. Government agencies and corporations ...	50,931	2,284	--	53,215
Mortgage-backed securities	176,003	3,515	(142)	179,376
Obligations of states and political subdivisions	92,464	3,792	(72)	96,184
Trust preferred securities	6,792	49	(2)	6,839
Other equity securities	9,409	--	(242)	9,167
	$ 335,599	$ 9,640	$ (458)	$ 344,781

The amortized cost and fair value of securities available for sale at December 31, 2001, are as follows:

	Securities Available For Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury securities	$ 15,019	$ 251	$ --	$ 15,270
Obligations of other U. S. Government agencies and corporations ...	51,010	1,759	(28)	52,741
Mortgage-backed securities	112,626	1,270	(606)	113,290
Obligations of states and political subdivisions	84,709	1,411	(478)	85,642
Trust preferred securities	--	--	--	--
Other equity securities	10,471	--	(121)	10,350
	$ 273,835	$ 4,691	$ (1,233)	$ 277,293

Note C - Securities (continued)

The amortized cost and fair value of securities available for sale at December 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities Available for Sale	Amortized Cost	Fair Value
Due in one year or less	$ 16,220	$ 16,489
Due after one year through five years	56,133	59,232
Due after five years through ten years	53,604	55,670
Due after ten years	17,438	18,008
Mortgage-backed securities	176,003	179,376
Preferred stock	16,201	16,006
	$ 335,599	$ 344,781

In connection with the Company's adoption of Statement No. 133 on January 1, 2001, all held-to-maturity securities with a total amortized cost of $85,658 were transferred to available-for-sale. The unrealized net gain at the date of transfer was $323. There were no sales of held-to-maturity securities during 2000.

At December 31, 2002 and 2001, securities with an amortized cost of approximately $163,500 and $201,188, respectively, were pledged to secure government, public, and trust deposits.

Note D - Loans and Allowance for Loan Losses
(In Thousands)

Loans are summarized as follows:	December 31	
	2002	2001
Commercial, financial, and agricultural	$ 139,497	$ 138,436
Lease financing	16,895	18,455
Real estate - construction	37,141	30,564
Real estate - mortgage	574,470	533,232
Installment loans to individuals	97,430	110,810
Gross loans	865,433	831,497
Unearned income	(2,125)	(3,801)
Loans, net of unearned income	863,308	827,696
Allowance for loan losses	(12,203)	(11,354)
Net loans	$ 851,105	$ 816,342

Included in real estate mortgage loans are mortgage loans held for sale of $3,624 and $9,659 at December 31, 2002 and 2001, respectively.

Note D - Loans and Allowance for Loan Losses (continued)

Changes in the allowance for loan losses were as follows:

	Year ended December 31		
	2002	2001	2000
Balance at beginning of year	$ 11,354	$ 10,536	$ 10,058
Provision for loan losses	4,350	4,790	6,373
Loans charged-off	(4,167)	(4,303)	(6,358)
Recoveries of loans previously charged-off	666	331	463
Balance at end of year	$ 12,203	$ 11,354	$ 10,536

Impaired loans recognized in conformity with SFAS No. 114, as amended by SFAS No. 118, were as follows:

	December 31	
	2002	2001
Impaired loans with a related allowance for loan losses	$ 3,908	$ 3,297
Impaired loans without a specific allowance for loan losses	--	1,764
Total impaired loans	$ 3,908	$ 5,061
Allowance specifically related to impaired loans	$ 1,806	$ 1,087

	Year ended December 31		
	2002	2001	2000
Average recorded investment in impaired loans	$ 4,485	$ 4,613	$ 4,138
Interest income recognized using the accrual basis of income recognition	$ 318	$ 531	$ 345
Interest income recognized using the cash-basis of income recognition	$ --	$ --	$ 191

At December 31, 2002 and 2001 nonaccrual loans totaled $1,417 and $614, respectively.

Certain Bank executive officers and directors and their associates are customers of and have other transactions with, the Bank. Related party loans and commitments are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than a normal risk of collectibility. The aggregate dollar amount of these loans was $10,697 and $10,974 at December 31, 2002 and 2001, respectively. During 2002, $5,019 of new loans were made and payments received totaled $5,296.

Note E - Premises and Equipment
(In Thousands)

Bank premises and equipment accounts are summarized as follows:

	December 31	
	2002	2001
Premises	$ 33,095	$ 31,337
Leasehold improvements	147	147
Furniture and equipment	11,204	9,993
Computer equipment	6,683	6,126
Auto	142	153
Total	$ 51,271	$ 47,756
Accumulated depreciation	(21,982)	(19,410)
Net	$ 29,289	$ 28,346

Depreciation expense was $3,165 and $3,131 at December 31, 2002 and 2001, respectively.

Note F - Deposits
(In Thousands)

At December 31, 2002, the approximate scheduled maturities of time deposits are as follows:

2003	$ 345,534
2004	90,125
2005	58,466
2006	31,115
2007	25,051
Thereafter	166
Total	$ 550,457

The aggregate amount of time deposits in denominations of $100 or more at December 31, 2002 and 2001 was $185,920 and $187,452, respectively.

Certain executive officers and directors had amounts on deposit with the Bank of approximately $4,028 at December 31, 2002.

Note G - Borrowed Funds and Lines of Credit
(In Thousands)

The Company had outstanding advances from the FHLB of $86,308 and $41,145 at December 31, 2002 and 2001, respectively. The interest rates on these advances are all at fixed rates which range from 1.62% to 7.93% at December 31, 2002. The Company had availability on unused lines of credit with the FHLB of $164,474 at December 31, 2002. These advances are collateralized by a pledge of a blanket lien on the Company's mortgages.

Future minimum payments, by year and in the aggregate, related to the FHLB advances with initial or remaining terms of one year or more, consisted of the following at December 31, 2002:

2003	$ 21,612
2004	16,092
2005	15,904
2006	13,539
2007	5,591
Thereafter	13,570
Total	$ 86,308

The Company maintains lines of credit with correspondent banks totaling $33,000 at December 31, 2002. These are unsecured lines of credit maturing at various times within the next fourteen months. Interest is charged at the market federal funds rate on all advances.

In addition, the Company maintains a treasury tax and loan account with the Federal Reserve Bank. The balance is collateralized by assets of the bank. Availability of the line of credit depends upon the amount of collateral pledged as well as the Federal Reserve Bank's need for funds.

Note H - Commitments, Contingent Liabilities and Financial Instruments with Off-Balance Sheet Risk (In Thousands)

Loan commitments are made to accommodate the financial needs of the Company's customers. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur.

Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies. Collateral (e.g., securities, receivables, inventory, equipment) is obtained based on management's credit assessment of the customer.

The Company's unfunded loan commitments (unfunded loans and unused lines of credit) and standby letters of credit outstanding at December 31, 2002, were approximately $99,665 and $9,293, respectively, compared to December 31, 2001, which were approximately $95,815 and $9,836, respectively.

Various claims and lawsuits, incidental to the ordinary course of business, are pending against the Company and the Bank. In the opinion of management, after consultation with legal counsel, resolution of these matters is not expected to have a material effect on the consolidated financial statements.

Market risk resulting from interest rate changes on particular off-balance sheet financial instruments may be offset by other on- or off-balance sheet transactions. Interest rate sensitivity is monitored by the Company for determining the net effect of potential changes in interest rates on the market value of both on- or off-balance sheet financial instruments.

Note I - Income Taxes
(In Thousands)

Deferred income taxes, included in other assets, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. No valuation allowance was recognized as the deferred tax assets were determined to be realizable in future years. This determination was based on the Company's earnings history with no basis for believing future performance will not continue to follow the same pattern.

Note I - Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2002 and 2001 are as follows:

	December 31	
	2002	2001
Deferred tax assets		
Allowance for loan losses	$ 5,015	$ 4,180
Deferred compensation	2,347	1,952
Other	635	810
Total deferred tax assets	7,997	6,942
Deferred tax liabilities		
Pension	1,041	342
Net unrealized gains on securities available for sale	3,774	1,322
Depreciation	934	971
Other	1,152	526
Total deferred tax liabilities	6,901	3,161
Net deferred tax assets	$ 1,096	$ 3,781

Significant components of the provision for income taxes (benefits) are as follows:

	Year ended December 31		
	2002	2001	2000
Current			
Federal	$ 5,786	$ 5,288	$ 3,555
State	800	687	309
	6,586	5,975	3,864
Deferred			
Federal	204	(753)	(55)
State	29	(113)	(9)
	233	(866)	(64)
	$ 6,819	$ 5,109	$ 3,800

The reconciliation of income taxes (benefits) computed at the United States federal statutory tax rates to the provision for income taxes is:

	Year ended December 31		
	2002	2001	2000
Tax at U.S. statutory rate	$ 9,306	$ 6,894	$ 5,244
Tax-exempt interest income	(2,312)	(1,968)	(1,784)
State income tax, net of federal benefit .	505	349	195
Amortization of intangible assets	--	72	62
Dividends received deduction	(60)	(113)	(58)
Other items-net	(620)	(125)	141
	$ 6,819	$ 5,109	$ 3,800

Note J - Restrictions on Cash, Bank Dividends, Loans, or Advances
(In Thousands)

The Bank is required to maintain average balances with the Federal Reserve Bank. The average amount of those balances for the year ended December 31, 2002, was approximately $21,443.

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans, or advances. The approval of the Mississippi Department of Banking and Consumer Finance is required prior to the Bank paying dividends, which are limited to earned surplus in excess of three times the Bank's capital stock. At December 31, 2002, the unrestricted surplus was approximately $108,050.

Federal Reserve regulations also limit the amount the Bank may loan to the Company unless such loans are collateralized by specific obligations. At December 31, 2002, the maximum amount available for transfer from the Bank to the Company in the form of cash dividends and loans was 19.65% of the Bank's consolidated net assets. There were no loans outstanding from the Bank to the Company at December 31, 2002.

Note K - Employee Benefit and Deferred Compensation Plans
(In Thousands)

The Company sponsored a defined benefit noncontributory pension plan which was curtailed as of December 31, 1996. Accordingly, participant accruals were frozen as of that date. The Company's funding policy is to contribute annually an amount that is at least equal to the minimum amount determined by consulting actuaries in accordance with the Employee Retirement Income Security Act of 1974. The Company contributed $3,300, $500, and $0 to the Plan for the years 2002, 2001, and 2000, respectively.

The Company also provides certain health care and/or life insurance to retired employees. Substantially all of the Company's employees may become eligible for these benefits if they reach normal or early retirement while working for the Company. The Company pays one-half of the health insurance premium. Up to age 70, each retired employee receives life insurance coverage paid entirely by the Company. The Company has accounted for its obligation related to these plans in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

The Company has limited its liability for the rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) to the rate of inflation assumed to be 4% each year. Increasing or decreasing the assumed health care cost trend rates by one percentage point in each year would not materially increase or decrease the accumulated postretirement benefit obligation nor the service and interest cost components of net periodic postretirement benefit costs as of December 31, 2002, and for the year then ended.

Note K - Employee Benefit and Deferred Compensation Plans (continued)

Pension Benefits represent the defined benefit pension plan previously offered by the Company and Other Benefits represent the postretirement health and life plans. There is no additional minimum pension liability required to be recognized. The following table sets forth the required disclosures as of December 31:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	$ 12,852	$ 12,448	$ 761	$ 727
Service cost	--	--	44	42
Interest cost	937	915	54	53
Plan participants' contributions	--	--	40	29
Actuarial gain (loss)	1,259	104	(1)	(36)
Benefits paid	(619)	(615)	(63)	(54)
Benefit obligation at end of year	$ 14,429	$ 12,852	$ 835	$ 761
Change in plan assets				
Fair value of plan assets at beginning of year	$ 12,944	$ 12,829		
Actual return (loss) on plan assets	(825)	230		
Contribution by employer	3,300	500		
Benefits paid	(619)	(615)		
Fair value of plan assets at end of year	$ 14,800	$ 12,944		
Prepaid (accrued) benefits cost				
Funded status	$ 371	$ 92	$ (835)	$ (761)
Unrecognized net actuarial gain	5,017	1,982	330	354
Unamortized prior service cost	200	230	20	24
Prepaid (accrued) benefit cost	$ 5,588	$ 2,304	$ (485)	$ (383)
Weighted-average assumptions as of December 31				
Discount rate	6.75%	7.50%	6.75%	7.50%
Expected return on plan assets	8.00%	8.00%	N/A	N/A

	Year ended December 31			Year ended December 31		
	Pension Benefits			Other Benefits		
	2002	2001	2000	2002	2001	2000
Components of net periodic benefit cost(income)						
Service cost	$ --	$ --	$ --	$ 44	$ 42	$ 38
Interest cost	937	915	881	54	53	53
Expected return on plan assets	(1,009)	(1,002)	(1,047)	--	--	--
Prior service cost recognized	30	30	30	27	31	8
Recognized gains	58	--	--	--	--	--
Net periodic benefit cost(income)	$ 16	$ (57)	$ (136)	$ 125	$ 126	$ 99

Note K - Employee Benefit and Deferred Compensation Plans (continued)

The Company maintains two defined contribution plans: a money purchase pension plan and a 401(k) plan. The money purchase pension plan is a noncontributory pension plan. The Company contributes 5% of compensation for each participant annually into this plan. Expenses related to the money purchase pension plan were $965, $846 and $730 in 2002, 2001, and 2000, respectively. The 401(k) plan is a contributory plan. Employees may contribute up to 10% of pre-tax earnings into this plan. In addition, the Company provides for a matching contribution up to 4% of compensation for each employee who has attained age 21, completed a year of service and is employed on the last day of the plan year. The Company's costs related to the 401(k) plan in 2002, 2001, and 2000 were $618, $442, and $408, respectively.

The Company and its subsidiary also sponsored an employee stock ownership plan covering substantially all full-time employees who were 21 years of age and had completed one year of employment prior to it's curtailment on January 1, 2002. The Company match for the 401(k) plan was raised to 4% from 3% upon curtailment of the ESOP Plan. The ESOP was amended in 2002 to enable employees to elect to receive dividends in cash. Total contributions to the Plan were $150 and $0 in 2001 and 2000, respectively.

The Company adopted the "Performance Based Reward" incentive compensation plan January 1, 2001. Incentive benefits are paid to eligible officers and employees after the end of each calendar year and are determined based on established criteria relating to profitability. Management sets baselines for all applicable profit centers to reward employees on improved economic benefit derived from the profit center. The expense associated with the Plan for 2002, 2001, and 2000 was $2,620, $1,762 and $0, respectively.

The Company maintains deferred compensation plans available to eligible directors and officers of the company. Directors may defer up to 100% of their fees and retainers. Employees may defer up to 10% of their salaries. Opportunities to increase deferrals, or for new participants to enter these plans, are offered annually. The interest amount accrued on deferrals is tied to Moody's Average Corporate Bond Rate for October of the previous year. These plans are unfunded, and it is anticipated that they will result in no cost of the Company over the term of these plans because life insurance policies on the lives of the participants have been purchased in amounts estimated to be sufficient to pay benefits under the plans. The Company is both the owner and beneficiary of the life insurance policies. The expense recorded in 2002, 2001, and 2000 for the Employee Deferred Compensation Plan, inclusive of the salary deferrals, was $525, $398 and $381, respectively. The expense recorded in 2002, 2001, and 2000 for the Directors Deferred Compensation Plan, inclusive of fee deferrals, was $168, $149, and $128, respectively. There were no retainer deferrals for 2002, 2001, or 2000.

At December 31, 2002, 637,551 common shares were reserved for issuance for employee benefit plans and business combinations.

During 2002, the Company repurchased approximately 129,947 shares. As of December 31, 2002, the Company had approximately 300,000 shares available for repurchase. Repurchased shares will be used for various corporate purposes, including the issuance of shares for business combinations and employee benefit plans.

The company has an active stock option plan, which was adopted in 2001. Under this plan options are granted which allow participants in the plan to acquire shares of the Company's common stock at a fixed price per share over a specified period of ten years. The options granted become vested and exercisable in equal installments of 33 1/3% upon completion of one, two, and three years of service measured from the grant date, respectively. Options that have not been vested are cancelled upon the termination of the participants' employment. In addition, granted options that have not been exercised after 10 years are cancelled.

Note K - Employee Benefit and Deferred Compensation Plans (continued)

The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions for each option grant:

	2002	2001
Dividend yield	3%	3%
Expected volatility	27%	28%
Risk-free interest rate	4.4%	4.4%
Expected lives	6 years	6 years

The weighted-average fair value of options granted during the year was $9.67 and $4.28 for the years ended December 31, 2002, and 2001, respectively. We recorded compensation expense of $80 in relation to this plan.

The following table summarizes information about our fixed stock option plan for the years ended December 31:

	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	10,000	$ 19.05		$
Granted and assumed	31,000	35.20	10,000	19.05
Exercised	--	--	--	--
Forfeited	--	--	--	--
Outstanding at end of year	41,000	$ 31.26	10,000	$ 19.05
Exercisable at end of year	3,333	$ 19.05	--	$ --

The following table summarizes information about fixed stock options outstanding at December 31, 2002:

	Options Outstanding				
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$19.05-$35.20	41,000	8.76	$ 31.26	3,333	$ 19.05

Note L - Regulatory Matters
(In Thousands)

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 December 31, 2002, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2002, 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. There are no conditions or events since that notification that management believes have changed the institution's category.

	December 31			
	2002		2001	
	Amount	Ratio	Amount	Ratio
The Company				
Total Capital	$131,734	14.97%	$123,646	14.68%
Tier I Capital	120,719	13.72%	113,106	13.43%
Tier I Leverage ...	120,719	9.28%	113,106	9.20%
The Bank				
Total Capital	$127,870	14.53%	$122,162	14.50%
Tier I Capital	116,856	13.28%	111,622	13.25%
Tier I Leverage ...	116,856	8.99%	111,622	9.08%

Note M - Segment Reporting

FASB No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires public companies to report certain financial and descriptive information about their reportable operating segments as defined and certain enterprise-wide financial information about products and services, geographic areas, and major customers.

Changes to the Company's internal reporting process during 2001 prompted management to reorganize into one segment that accounts for the Company's principal activity, the delivery of financial services through its community banks. The Company's internal reporting mechanism changed from years past in order to more closely match expenses with revenues at the community bank level. Direct and indirect expenses and revenues are allocated to the respective community banks based on various methods, including percentage of loans, percentage of deposits, percentage of loans and deposits together, full-time equivalent employees, number of accounts serviced, and actual sales. The activities reported outside of community banking do not comprise a separate, material segment for disclosure. All of the Company's products are offered to similar classes of customers and markets, are distributed using the same methods, and operate in similar regulatory environments.

Note N - Disclosures About Fair Value of Financial Instruments
(In Thousands)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and due from banks: The carrying amount reported in the consolidated balance sheet for cash and due from banks approximates fair value.

Interest-bearing balances with banks: The carrying amount reported in the consolidated balance sheet for interest-bearing balances with banks approximates fair value.

Federal funds sold: The carrying amount reported in the consolidated balance sheet for federal funds sold approximates fair value.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fixed-rate loan fair values, including mortgages, commercial, agricultural, and consumer loans are estimated using a discounted cash flow analysis based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposits: The fair values disclosed for demand deposits, both interest-bearing and noninterest-bearing, are, by definition, equal to the amount payable on demand at the reporting date. The fair values of certificates of deposit and individual retirement accounts are estimated using a discounted cash flow based on currently effective interest rates for similar types of accounts.

Treasury tax and loan note account: The carrying amounts reported in the consolidated balance sheet approximate the fair value.

Advances from Federal Home Loan Bank: The fair value was determined by discounting the cash flow using the current market rate.

Off-balance sheet: Off-balance sheet items are primarily short-term commitments, often at variable rates which are tied to prime; accordingly, the commitment amounts approximate fair value.

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	$ 46,422	$ 46,422	$ 41,475	$ 41,475
Interest-bearing balances with banks	12,319	12,319	22,937	22,937
Federal funds sold	--	--	7,000	7,000
Securities	344,781	344,781	277,293	277,293
Loans, net	851,105	863,256	816,342	858,345
Financial liabilities:				
Deposits	1,099,048	1,092,470	1,063,055	1,052,263
Treasury tax and loan note account	5,498	5,498	6,181	6,181
Advances from Federal Home Loan Bank	86,308	87,045	41,145	42,512

Note O - The Peoples Holding Company (Parent Company Only) Condensed Financial Information (In Thousands)

Balance Sheets	December 31 2002	2001
Assets		
Cash*	$ 1,487	$ 1,204
Stock	75	75
Investment in bank subsidiary*	128,915	122,098
Dividends receivable*	3,677	1,553
Other assets	129	78
Total assets	$ 134,283	$ 125,008
Liabilities and shareholders' equity		
Dividends payable*	$ 1,505	$ 1,426
Shareholders' equity	132,778	123,582
Total liabilities and shareholders' equity	$ 134,283	$ 125,008

*Eliminates in consolidation

Statements of Income	Year ended December 31 2002	2001	2000
Income			
Dividends from bank subsidiary*	$ 13,028	$ 15,764	$ 11,067
Other dividends	28	29	41
	13,056	15,793	11,108
Expenses	366	206	40
Income before income tax credits and equity in undistributed net income of bank subsidiary	12,690	15,587	11,068
Income tax credits	(136)	(75)	(12)
	12,826	15,662	11,080
Equity in undistributed net income of bank subsidiary*	3,544	(1,075)	104
Net income	$ 16,370	$ 14,587	$ 11,184

*Eliminates in consolidation

Note O - The Peoples Holding Company (Parent Company Only) Condensed Financial Information (continued)

Statements of Cash Flows	Year ended December 31 2002	2001	2000
Operating activities			
Net income	$ 16,370	$ 14,587	$ 11,184
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiary	(3,544)	1,075	(104)
Increase in dividends receivable and other assets	(2,176)	(97)	(157)
Increase (decrease) in other liabilities	79	(50)	(56)
Stock option compensation	80	--	--
Net cash provided by operating activities	10,809	15,515	10,867
Financing activities			
Cash dividends	(5,826)	(5,619)	(5,341)
Purchase of treasury stock	(4,700)	(9,249)	(5,178)
Net cash used in financing activities	(10,526)	(14,868)	(10,519)
Increase in cash	283	647	348
Cash at beginning of year	1,204	557	209
Cash at end of year	$ 1,487	$ 1,204	$ 557

Note P - Quarterly Results of Operations (Unaudited)
(In Thousands)

The following is a summary of the unaudited quarterly results of operations:

	Three Months Ended			
	Mar 31	June 30	Sept 30	Dec 31
Year ended December 31, 2002				
Interest income	$ 19,529	$ 19,971	$ 19,707	$ 19,211
Interest expense	7,090	6,720	6,554	6,161
Net interest income	12,439	13,251	13,153	13,050
Provision for loan losses	1,125	1,075	1,125	1,025
Noninterest income	6,609	6,650	6,985	7,198
Noninterest expense	12,298	12,526	12,642	13,030
Income before income taxes	5,625	6,300	6,371	6,193
Income taxes	1,560	1,811	1,827	1,621
Income before cumulative effect of accounting change	4,065	4,489	4,544	4,572
Cumulative effect of accounting change.	(1,300)	--	--	--
Net income	$ 2,765	$ 4,489	$ 4,544	$ 4,572
Basic and diluted earnings per share:				
Income before cumulative effect of accounting change	$ 0.72	$ 0.80	$ 0.81	$ 0.82
Cumulative effect of accounting change.	(0.23)	--	--	--
Net income	$ 0.49	$ 0.80	$ 0.81	$ 0.82

	Three Months Ended			
	Mar 31	June 30	Sept 30	Dec 31
Year ended December 31, 2001				
Interest income	$ 22,673	$ 22,422	$ 21,877	$ 20,794
Interest expense	11,591	10,868	9,907	8,556
Net interest income	11,082	11,554	11,970	12,238
Provision for loan losses	1,125	1,125	1,225	1,315
Noninterest income	5,730	5,846	6,172	6,641
Noninterest expense	11,055	11,375	11,873	12,444
Income before income taxes	4,632	4,900	5,044	5,120
Income taxes	1,330	1,313	1,202	1,264
Net income	$ 3,302	$ 3,587	$ 3,842	$ 3,856
Basic and diluted earnings per share ..	$ 0.55	$ 0.60	$ 0.66	$ 0.67

Note Q - Goodwill and Other Intangible Assets
(In Thousands)

In the first quarter of 2002, the Company completed the transitional impairment test required by Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Intangible Assets." As a result of this test, the Company recorded a goodwill impairment charge of $1,300 as a cumulative effect of a change in accounting principle. The Company identified its reporting units as banking operations and insurance operations for purposes of measuring impairment of goodwill. The reason we measured in this manner is that the insurance operation is a subsidiary of the bank. The impairment was specific to the insurance subsidiary. The fair value of the insurance reporting unit was estimated using the expected present value of the future cash flows. The insurance operation acquisition was a tax-free exchange; therefore, there was no tax offset to the impairment cost booked.

	As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Core deposit intangible assets	$ 507	$ (389)
Other intangible assets	3,282	(2,085)
Total intangible assets	$ 3,789	$ (2,474)
Goodwill	$ 7,190	$ (2,142)

Aggregate amortization expense:	
for the year ended December 31, 2002..	$ 493
Estimated amortization expense:	
for the year ended December 31, 2003..	493
for the year ended December 31, 2004..	422
for the year ended December 31, 2005..	400
for the year ended December 31, 2006..	--

The changes in the carrying amount of intangible assets for the year ended December 31, 2002, are as follows:

	Goodwill	Other Intangibles
Balance as of January 1, 2002	$ 6,348	$ 1,808
Impairment losses	(1,300)	--
Amortization expense	--	(493)
Balance as of December 31, 2002	$ 5,048	$ 1,315

Note Q - Goodwill and Other Intangible Assets (continued)

The table below presents net income for the prior periods as reported as well as adjusted for the exclusion of goodwill amortization and the cumulative effect of the transitional impairment.

	As of December 31		
	2002	2001	2000
Reported net income	$16,370	$14,587	$11,184
Goodwill amortization, net of tax	--	407	335
Transitional impairment	1,300	--	--
Adjusted net income	$17,670	$14,994	$11,519
Basic and diluted earnings per share:			
Reported net income	$ 2.92	$ 2.48	$ 1.83
Goodwill amortization, net of tax	--	0.07	.06
Transitional impairment	0.23	--	--
Adjusted net income	$ 3.15	$ 2.55	$ 1.89

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers of the Company

The names, ages and positions of the Company's principal executive officers are listed below together with their business experience during the past five years:

Name	Age	Position
E. Robinson McGraw	56	Director, President, and Chief Executive Officer of the Company since November, 2000; Director, President and Chief Executive Officer of the Bank since November, 2000; Executive Vice President of the Bank from September, 1993 until October, 2000.
James W. Gray	46	Executive Vice President of the Company since February, 2003; Executive Vice President of the Bank since April, 1996; Strategic Planning Director of the Bank since November, 2000; Chief Operations Officer of the Bank from November, 1998 until October, 2000.
Stuart R. Johnson	49	Executive Vice President of the Company since February, 2003; Executive Vice President, Chief Financial Officer, and Cashier of the Bank since April, 1996.

All of our officers are appointed annually by the Board of Directors to serve at the discretion of the Board.

Directors of the Company

The names, ages and terms of office of the Company's directors are listed below together with their business experience during the past five years.

Class 1 Directors and Nominees (to be elected at the 2003 annual meeting, terms of office expire in 2006):

- George H. Booth, II is co-owner of Tupelo Hardware Company, a closely held family business primarily engaged in wholesale and retail hardware sales. Mr. Booth is currently serving as president of Tupelo Hardware Company, having served as vice president from 1976 until 2000. Mr. Booth, who is 49 years old, has been a director of the Company since 1994.

- Frank B. Brooks has been a cotton farmer since 1959 and president of Yalobusha Gin Company, Inc., a cotton gin located in Yalobusha County, Mississippi, since 1992. Mr. Brooks, who is 59 years old, has been a director of the Company since 1989.

- Robert C. Leake has served as chairman of the Company's board and the Bank's board since 1989. Mr. Leake has also been principal owner of Leake & Goodlett, Inc., a closely held family business primarily engaged in full service retail building material and supplies, since 1957. Mr. Leake is currently serving as vice president of Leake & Goodlett, Inc., having served as president from 1974 until 2002. Mr. Leake, who is 70 years old, has been a director of the Company since 1973.

- C. Larry Michael has served as president of Transport Trailer Service, Inc., a company primarily engaged in semi-trailer sales and repair, Rent-A-Box, Inc., a company primarily engaged in semi-trailer leasing, and Precision Machine and Metal Fabrication, a company primarily engaged in customized machining of metal parts, since 1972. Mr. Michael, who is 57 years old, has been a director of the Company since 1997.

Retiring Class 1 Director (term of office expires at the 2003 annual meeting):

- J. Heywood Washburn has been self-employed as an investor in various undertakings for the past five years. Mr. Washburn is co-general partner of Washburn Enterprises, LP, a company engaged in real estate development and property management and rental. Since October 2002, Mr. Washburn has also been a partner in Mississippi Alabama Production Company, LLC, a company engaged in oil and gas equipment leasing. Mr. Washburn, who is 72 years old, has been a director of the Company since 1982.

Class 2 Directors (terms of office expire in 2004):

- John M. Creekmore has been engaged in the practice of law since 1987 as the owner of the law firm Creekmore Law Office. Mr. Creekmore, who is 47 years old, has been a director of the Company since 1997.

- E. Robinson McGraw has served as president and chief executive officer of both the Company and the Bank since 2000. Mr. McGraw served as executive vice president of the Bank prior to becoming chief executive officer. Mr. McGraw, who is 56 years old, has been a director of the Company since 2000.

- Theodore S. Moll has been with MTD Products, a company primarily engaged in the production of outdoor power equipment, since 1965. Mr. Moll presently serves as executive vice president of its worldwide operations. Mr. Moll, who is 60 years old, has been a director of the Company since 2002.

- John W. Smith, who is retired, served as president and chief executive officer of the Company and the Bank from 1993 until 2000. Mr. Smith, who is 67 years old, has been a director of the Company since 1978.

- Robert H. Weaver, who is retired, engaged in the practice of law as a partner of Watkins Ludlam Winter & Stennis, P.A. from 1959 until 2000. Since his retirement, he has been serving as of counsel for that firm. Mr. Weaver, who is 71 years old, has been a director of the Company since 1980.

- J. Larry Young has been employed as a part-time pharmacist with Fred's Pharmacy in Pontotoc, Mississippi since 1998. Prior to 1998, Mr. Young was a pharmacist for and a partner in Ramsey-Young Pharmacy. Mr. Young, who is 64 years old, has been a director of the Company since 1982.

Class 3 Directors (terms of office expire in 2005):

- William M. Beasley has been engaged in the practice of law as a partner of the law firm of Phelps Dunbar LLP since 1999. Prior to 1999, Mr. Beasley was a partner of the law firm of Mitchell, Voge, Beasley and Corban. He has also served as vice chairman of the board of directors of the Company since 2001. Mr. Beasley, who is 51 years old, has been a director of the Company since 1989.

- Marshall H. Dickerson has been the owner and manager of Dickerson Furniture Company, a company primarily engaged in retail home furnishings, since 1978. Mr. Dickerson, who is 53 years old, has been a director of the Company since 1996.

- Eugene B. Gifford, Jr. has been engaged in the practice of law since 1960 as a partner in the law firm of Gifford, Allred and Tennison. Mr. Gifford, who is 68 years old, has been a director of the Company since 1987.

- Richard L. Heyer, Jr. has served as a physician and partner of Tupelo Anesthesia Group, P.A. since 1989. Dr. Heyer, who is 46 years old, has been a director of the Company since 2002.

- J. Niles McNeel has been engaged in the practice of law as a partner of the law firm of McNeel and Ballard since 1983. Mr. McNeel, who is 56 years old, has been a director of the Company since 1999.

- H. Joe Trulove is presently a partner of Landmark Enterprises, a company primarily engaged in real estate and investments. Mr. Trulove has been chairman of the board of directors of Rose Hill Manufacturing Company, a company primarily engaged in the manufacture of upholstered furniture, since 2002. Prior to 2001, Mr. Trulove was senior vice president of York Casket Company, a company primarily engaged in the manufacture of caskets. Mr. Trulove, who is 65 years old, has been a director of the Company since 1999.

All of the directors and nominees listed above also presently serve on the board of the Bank. There are no family relationships between any director, executive officer or person nominated to become a director.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities Exchange Commission and the American Stock Exchange reports of ownership of Company securities and changes in reported ownership. Officers, directors and greater than 10% shareholders are required by SEC rules to furnish the Company with copies of all Section 16(a) reports by file.

Based solely upon a review of the reports furnished to the Company, or written representations from reporting persons that all reportable transactions were reported, the Company believes that during 2002 the Company's officers, directors and greater than 10% owners timely filed all reports they were required to file under Section 16(a), except that: three reports, each covering a single transaction, were inadvertently filed late by Mr. Gifford; one report covering two transactions was inadvertently filed late by Dr. Heyer; one report covering one transaction was inadvertently filed late by Mr. McGraw; one report covering one transaction was inadvertently filed late by Mr. Leake; and one report covering two transactions was inadvertently filed late by Mr. Weaver. In addition, the following individuals each inadvertently filed one late report for one or more acquisitions of common stock equivalent units occurring after August 28, 2002, credited under a deferred compensation plan maintained by the Company: Mr. Beasley, two acquisitions; Mr. Brooks, two acquisitions; Mr. Creekmore, two acquisitions, Mr. Dickerson, two acquisitions; Mr. Gifford, two acquisitions; Dr. Heyer, one acquisition; Mr. McGraw, six acquisitions; Mr. Michael, two acquisitions; Mr. Moll, one acquisition; Mr. Trulove, two acquisitions; Mr. Waycaster, six acquisitions; Mr. Weaver, two acquisitions; and Mr. Young, two acquisitions.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the headings "Executive Compensation", "Compensation Committee Interlocks and Insider Participation" and "Stock Performance Graph" in the Company's definitive Proxy Statement, dated March 10, 2003, is incorporated herein by reference

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing under the headings "Security Ownership of Directors, Nominees and Executive Officers" and "Security Ownership of Certain Beneficial Owners" in the Company's definitive Proxy Statement, dated March 10, 2003, is incorporated herein by reference.

The information appearing under the heading "Equity Compensation Plan Information" in the Company's definitive Proxy Statement, dated March 10, 2003, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the headings "Indebtedness of Related Parties" and "Interests of the Board of Directors" in the Company's definitive Proxy Statement, dated March 10, 2003, is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

Based upon their evaluation as of a date within 90 days prior to the filing of this annual report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) are effective for timely alerting them to material information required to be included in our periodic SEC reports. Subsequent to the date of their evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) - (1) Financial Statements

The following consolidated financial statements and supplementary information for the fiscal years ended December 31, 2002, 2001, and 2000 are included in Part II, Item 8 herein:

(i) Report of Independent Auditors

(ii) Consolidated Balance Sheets - December 31, 2002 and 2001

(iii) Consolidated Statements of Income - Years ended December 31, 2002, 2001, and 2000

(iv) Consolidated Statements of Shareholders' Equity - Years ended December 31, 2002, 2001, and 2000

(v) Consolidated Statements of Cash Flows - Years ended December 31, 2002, 2001, and 2000

(vi) Notes to Consolidated Financial Statements - December 31, 2002

(a) - (2) Financial Statement Schedules

All schedules have been omitted because they are either not applicable or the required information has been included in the consolidated financial statements or notes thereto.

(a) - (3) Exhibits required by Item 601 of Regulation S-K

(3)(i) Articles of Incorporation of the Company(1)

(3)(ii) Bylaws of the Company (as amended March 1, 2001) (2)

(10)(i) The Peoples Holding Company 2001 Long-Term Incentive Plan(3)

(10)(ii) The Peoples Holding Company Deferred Compensation Plan(4)

(10)(iii) Executive Deferred Compensation Plan A(5)

(10)(iv) Executive Deferred Compensation Plan B(6)

(10)(v) Directors' Deferred Fee Plan A(7)

(10)(vi) Directors' Deferred Fee Plan B(8)

(10)(vii) Change in Control Employment Agreement dated January 1, 2001 between the Company and E. Robinson McGraw(9)

(10)(viii) Change in Control Employment Agreement dated February 28, 1998 between the Company and Stuart R. Johnson

(10)(ix) Change in Control Employment Agreement dated February 28, 1998 between the Company and James W. Gray

(21) Subsidiaries of the Company(1)

(23) Consent of Independent Auditors

(1) Filed as an exhibit to the Form S-4 Registration Statement of the Company (File No. 333-72507) filed with the Securities and Exchange Commission on February 17, 1999 and incorporated herein by reference.

(2) Filed as an exhibit to the Form 10-Q of the Company filed with the Securities and Exchange Commission on November 14, 2002 and incorporated herein by reference.

(3) Filed as exhibits 4.1 and 4.2 to the Form S-8 Registration Statement of the Company (File No. 333-102152) filed with the Securities and Exchange Commission on December 23, 2002 and incorporated herein by reference.

(4) Filed as exhibits 4.3 and 4.4 to the Form S-8 Registration Statement of the Company (File No. 333-102152) filed with the Securities and Exchange Commission on December 23, 2002 and incorporated herein by reference.

(5) Filed as exhibit 10.1 to the Form 10-Q filed with the Securities and Exchange Commission on November 14, 2002 and incorporated herein by reference.

(6) Filed as exhibit 10.2 to the Form 10-Q filed with the Securities and Exchange Commission on November 14, 2002 and incorporated herein by reference.

(7) Filed as exhibit 10.3 to the Form 10-Q filed with the Securities and Exchange Commission on November 14, 2002 and incorporated herein by reference.

(8) Filed as exhibit 10.4 to the Form 10-Q filed with the Securities and Exchange Commission on November 14, 2002 and incorporated herein by reference.

(9) Filed as exhibit 10.5 to the Form 10-Q filed with the Securities and Exchange Commission on November 14, 2002 and incorporated herein by reference.

The Company does not have any long-term debt instruments under which securities are authorized exceeding ten percent of the average assets of the Company and its subsidiaries on a consolidated basis. The Company will furnish to the Securities and Exchange Commission, upon their request, a copy of all long-term debt instruments.

(a) Reports on Form 8-K

The following reports on Form 8-K were filed by the Company during the last quarter of the period covered by this Annual Report on Form 10-K:

On October 18, 2002, the Company filed on Form 8-K a press release announcing the financial results of the Company for the quarter ended September 30, 2002.

On October 22, 2002, the Company filed on Form 8-K a press release announcing that the Board of Directors of the Company authorized the Company to repurchase up to 278,771 shares of the Company's common stock.

On November 21, 2002, the Company filed on Form 8-K a press release announcing the declaration of a quarterly cash dividend on the Company's common stock of $.27 per share.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 10, 2003 By: /s/ E. Robinson McGraw
E. Robinson McGraw
President and Chief Executive Officer

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

THE PEOPLES HOLDING COMPANY

Date: March 10, 2003 By: /s/ Robert C. Leake
Robert C. Leake
Chairman of the Board and Director

Date: March 10, 2003 By: /s/ William M. Beasley
William M. Beasley
Vice Chairman of the Board and Director

Date: March 10, 2003 By: /s/ George H. Booth, II
George H. Booth, II
Director

Date: March 10, 2003 By: /s/ Frank B. Brooks
Frank B. Brooks
Director

Date: March 10, 2003 By: /s/ John M. Creekmore
John M. Creekmore
Director

Date: March 10, 2003 By: /s/ Marshall H. Dickerson
Marshall H. Dickerson
Director

Date: March 10, 2003 By: /s/ Eugene B. Gifford, Jr.
Eugene B. Gifford, Jr.
Director

Date: March 10, 2003 By: /s/ Richard L. Heyer, Jr.
Richard L. Heyer, Jr.
Director

Date: March 10, 2003	By: /s/ Stuart R. Johnson -------------------------- Stuart R. Johnson Executive Vice President and Chief Financial Officer
Date: March 10, 2003	By: /s/ E. Robinson McGraw -------------------------- E. Robinson McGraw President and Chief Executive Officer and Director
Date: March 10, 2003	By: /s/ J. Niles McNeel -------------------------- J. Niles McNeel Director
Date: March 10, 2003	By: /s/ C. Larry Michael -------------------------- C. Larry Michael Director
Date: March 10, 2003	By: /s/ Theodore S. Moll -------------------------- Theodore S. Moll Director
Date: March 10, 2003	By: /s/ John W. Smith -------------------------- John W. Smith Director
Date: March 10, 2003	By: /s/ H. Joe Trulove -------------------------- H. Joe Trulove Director
Date: March 10, 2003	By: /s/ J. Heywood Washburn -------------------------- J. Heywood Washburn Director
Date: March 10, 2003	By: /s/ Robert H. Weaver -------------------------- Robert H. Weaver Director
Date: March 10, 2003	By: /s/ J. Larry Young -------------------------- J. Larry Young Director

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, E. Robinson McGraw, certify that:

1. I have reviewed this annual report on Form 10-K of The Peoples Holding Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

By: /s/ E. Robinson McGraw

E. Robinson McGraw
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stuart R. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of The Peoples Holding Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

By: /s/ Stuart R. Johnson

Stuart R. Johnson
Chief Financial Officer

Exhibit 10.8

THE PEOPLES HOLDING COMPANY

EMPLOYMENT AGREEMENT

This Agreement ("Agreement") has been entered into this 10th day of February, 1998, by and between The Peoples Holding Company ("Company"), and Stuart R. Johnson, an individual ("Executive").

RECITALS

The Board of Directors of the Company ("Board") has determined that it is in the best interest of the Company and its stockholders to reinforce and encourage the continued attention and dedication of the Executive to the Company as a member of management of the Company or as a member of management of a subsidiary of the Company, and to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat, or occurrence of a Change in Control (as defined below) of the Company. The Board believes that it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control and to encourage the Executive's full attention and dedication to the Company or a subsidiary currently and in the event of any threatened or pending Change in Control which ensures that the compensation and benefit expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

IT IS AGREED AS FOLLOWS:

Section 1: Definitions and Construction.

1.1 Definitions. For purposes of this Agreement, the following words and phrases, whether or not capitalized, shall have the meaning specified below unless the context plainly requires a different meaning.

(a) "Board" means the Board of Directors of the Company.

(b) "Change in Control" means any liquidation, dissolution, consolidation or merger of the Company in which the Company is not a continuing or surviving corporation.

(c) "Change in Control Date" shall mean the date of the change in control.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(e) "Company" means The Peoples Holding Company, a Mississippi Corporation, for the purpose of determining if a change in control has occurred. For the purpose of an employment relationship, it includes any subsidiary or successor of The Peoples Holding Company.

(f) "Effective Date" shall mean February 10, 1998.

(g) "Exchange Act" means the Securities and Exchange Act of 1934, as amended.

(h) "Person" means any "person" within the meaning of Section 13(d) and 14(d) of the Exchange Act.

(i) "Term" means the period that begins on the effective date and ends on the anniversary of the effective date, unless prior thereto a Change in Control shall have occurred. This contract shall automatically renew for additional one- (1) year terms unless either party shall give the other party at least ninety (90) days' advance written notice of said party's intention not to renew said contract; provided, however, the Company shall not be able to give notice of its intention not to renew the contract following a Change in Control or if it is involved in any negotiations, whether formal or informal, that may result in a Change in Control.

1.2 Gender and Number. When appropriate, pronouns herein used in the masculine gender include the feminine gender, words in the singular include the plural, and words in the plural include the singular.

1.3 Headings. All headings herein are included solely for ease of reference and do not bear on the interpretation of the text. Accordingly, as used herein, the terms "Article" and "Section" mean the text that accompanies the specified Article or Section hereof.

1.4 Applicable Law. This agreement shall be governed by and construed in accordance with the laws of the State of Mississippi without reference to its conflicts of law principles.

Section 2: Terms and Conditions of Employment.

2.1 Severance Benefits. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's agreeing to remain in the employ of the Company, subject to the terms and conditions set forth herein, this Agreement sets forth the severance benefits which the Company agrees will be provided to the Executive in the event the Executive's employment with the Company is terminated subsequent to a Change in Control under the circumstances described herein.

2.2 Positions and Duties. Prior to the receipt of benefits under this Agreement, the Executive shall serve as an officer of the Company or of a subsidiary thereof, subject to the reasonable directions of the Board and the immediate superior of the Executive. During the term of this Agreement, Executive agrees that Executive will not voluntarily leave the employ of the Company except as may be provided hereunder. Any violation of this Section 2.2 by the Executive prior to a Change in Control shall result in a termination hereof, and the Executive shall have no other liability hereunder for such action. In consideration of this, the Company agrees that following a Change in Control, the Executive's authority, duties and responsibilities shall be at least commensurate in all material respects with those assigned to, or held and exercised by, the Executive immediately preceding the date on which a Change in Control occurs. Notwithstanding the foregoing, the Company may terminate the Executive's employment at any time, subject to providing the benefits hereinafter specified and in accordance with the terms hereof.

2.3 Situs of Employment. Following a Change in Control, the new entity shall make a good faith effort to provide the Executive with the type and kind of employment described herein at the location where the Executive was providing his services prior to the Change of Control. However, if the new entity decides it must transfer or relocate the Executive, it will provide the Executive the following benefits: (a) purchase the Executive's home at its average appraised value plus at least 10% of the appraised value (appraised value being the average of an appraised value by a duly licensed and qualified appraiser selected by the Executive and the appraised value of a duly licensed and qualified appraiser selected by Company); (b) pay all reasonable cost and expenses incurred by the Executive in moving to a new location; (c) provide the Executive an immediate increase in his annual income of at least 6%; (d) require no transfer or relocation of an Executive who has school age children until the end of the school year; (e) pay to Executive seventy-five percent (75%), not to exceed Five Thousand Dollars ($5,000.00) per child per year, of the tuition of a private school if Executive has a school child or children and the Executive reasonably determines it to be in the best interest of such child or children to attend a private school at the new situs of employment.

2.4 Compensation.

(a) Annual Base Salary. The Annual Base Salary ("Annual Base Salary")shall be an amount equal to the salary the Executive was receiving during the month immediately preceding a Change in Control computed on an annualized basis.

(b) Incentive Bonuses. Incentive Bonuses ("Incentive Bonus") shall mean any bonuses provided through any incentive compensation plan, subject to the provisions of such plan.

(c) Welfare Benefit Plans. Welfare benefit plans shall mean practices, policies and programs provided by the Company (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs), subject to the provision of such welfare benefit plans.

Section 3: Termination of Employment.

3.1 Death. The Executive's employment shall terminate automatically upon the Executive's death during the Term of this Agreement and prior to a termination of employment by the Executive.

3.2 Disability. Following a Change in Control, if the Company determines in good faith that a Disability of the Executive has occurred (pursuant to the definition of Disability set forth below), the Company may give to the Executive written notice in accordance with Section 7.1 of the intention of the Company to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the thirtieth (30th) day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the thirty (30) days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean that the Executive has been unable to perform the services required of the Executive hereunder on a full-time basis for a period of one hundred-eighty (180) consecutive business days by reason of a physical and/or mental condition. "Disability" shall be deemed to exist when certified by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably). The Executive will submit to such medical or psychiatric examinations and tests as such physician deems necessary to make any such Disability determination.

3.3 Termination for Cause. Following a Change in Control, the Company may terminate the Executive's employment for "Cause," which shall mean termination based upon: (a) the Executive's willful and continued failure to perform the Executive's duties with the Company (other than as a result of incapacity due to physical or mental condition), after a demand for substantial performance is delivered to the Executive by the Chief Executive Officer of the Company or the Chairman of the Board, which specifically identifies the manner in which the Executive has not substantially performed the Executive's duties, (b) the Executive's willful commission of misconduct which is materially injurious to the Company, monetarily or otherwise, or (c) the Executive's material breach of any provision of this Agreement. For purposes of this paragraph, no act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, without good faith and without reasonable belief that the act or omission was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until (a) the Executive receives a notice of Termination (as defined in Section 3.5) from the Chief Executive Officer of the Company or the Chairman of the Board, (b) the Executive is given the opportunity, with counsel, to be heard before the Board, and (c) the Board finds, in its good faith opinion, that the Executive was guilty of the conduct set forth in the Notice of Termination.

3.4 Good Reason. Following a Change in Control, the Executive may terminate employment with the Company for "Good Reason," which shall mean termination based upon:

(a) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position, authority, duties or responsibilities as contemplated by Section 2.2 or any other action by the Company which results in a material diminution in such position, authority, duties or responsibilities, excluding for this purpose any action not taken in bad faith and which is remedied by the Company promptly after notice thereof given by the Executive;

(b) (i) the failure by the Company to continue in effect any benefit or compensation plan, stock ownership plan, life insurance plan, health and accident plan or disability plan in which the Executive is participating as specified in Section 2.4(b) or 2.4(c) or (ii) the taking of any action by the Company which would adversely affect the Executive's participation in,or materially reduce the Executive's benefits under, any plans described in Section 2.4(b) or 2.4(c),or deprive the Executive of any material fringe benefit enjoyed by the Executive as described in Section 2.4(b) or 2.4(c);

(c) a material breach by the Company of any provision hereof;

(d) any termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement;

(e) within a period ending at the close of business on the date three (3) years after the Change in Control Date, any failure by the Company to comply with and satisfy Section 6.2 on or after the Change in Control Date.

3.5 Notice of Termination. Any termination by the Company for Cause or Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party, given in accordance with Section 7.1. For purposes of this Agreement, a "notice of Termination" means a written notice which (a) indicates the specific termination provision herein relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (c) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty [30] days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

3.6 Date of Termination. "Date of Termination" means (a) if the Executive's employment is terminated by the Company with or without Cause, or by the Executive for Good Reason, the date of Termination shall be the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, or (b) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

Section 4: Certain Benefits Upon Termination of Employment.

4.1 Termination after a Change in Control. If a Change in Control occurs during the Term of this Agreement and within three (3) years after such Change in Control, either the Company shall terminate the Executive's employment without Cause, or the Executive shall terminate employment with the Company for Good Reason, then the Executive shall be entitled to the benefits provided below for the three year period after Change in Control or the remaining portion of said three year period following the date of termination.

(a) "Accrued Obligations": On the tenth (10th) business day following the Date of Termination, the Company shall pay to the Executive the sum of (i) the Executive's Annual Base Salary prorated through the Date of Termination to the extent not previously paid, and (ii) any accrued vacation pay to the extent not previously paid.

(b) "Severance Amount": The "Severance Amount" shall be an amount equal to 2.99 times the Executive's Annual Base Salary in effect on the business day prior to the Date of Termination plus 2.99 times the average annual incentive bonus for the two years prior to the Change in Control. The Company shall set aside this amount in escrow for a period of three years and the Escrow Agent shall pay to the Executive, beginning on the tenth (10th) business day following the Date of Termination, a monthly amount of one-thirty-sixth (1/36) of the severance amount less any monthly W-2, Schedule C or Schedule F earnings reportable on Internal Revenue Service Form 1040 which are received by the Executive from his present employer or any future employer or employers for a period of 36 months or until the earlier exhaustion of the entire severance amount plus interest thereon.

In the event of the Executive's death after a termination for which a "Severance Amount" is payable, the Escrow Agent shall continue to pay to the Executive's spouse or other named beneficiary the remaining obligation owed the Executive under the terms of this contract and the Escrow Agreement. The Company may, however, at its option, elect to pay the Severance Amount to the Executive, or in the event of his death, his spouse or other named beneficiary, in the form of a lump-sum cash payment on or before the date the first monthly payment is due; or the Company, at its option, at anytime during the term of the Escrow Agreement, can direct the Escrow Agent to pay the Executive, the Executive's spouse, or named beneficiary, as the case may be, the then remaining balance of the severance amount, plus any accrued and accumulated interest thereon, in the form of a lump-sum cash payment, and the rights and obligations of all parties under both the Employment Agreement and Escrow Agreement shall be terminated.

In the event, subsequent to the Change in Control, the Executive becomes an employee of any competing commercial bank, savings bank, savings and loan association, or credit union ("financial institution") in the defined market area of the Employer prior to the Change in Control, then any obligation of the Employer under this Section is terminated, and the Executive shall not be entitled to any further benefits under this Agreement.

The severance amount set aside in escrow shall be invested according to the provisions of the escrow agreement attached hereto as "Exhibit A" and the interest earned included in the amount payable to the Executive. Any severance amounts not paid to the Executive shall be returned to the Company at the end of the 36-month escrow period, or sooner should the Executive accept employment with a competing "financial institution" as defined above. All interest earned on the account shall be paid to the Executive following the final severance payment.

(c) "Other Benefits": To the extent not previously provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided for which the Executive and/or the Executive's family is eligible to receive pursuant hereto and under any plan, program, policy or practice or contract or agreement of the Company as those provided generally to other peer executives and their families during the ninety (90) day period immediately preceding the Effective Date or, if more favorable to the Executive, as those provided generally after the Effective Date to other peer executives of the Company and their families.

(d) If termination of the Executive occurs less than three years after such Change in Control, then the benefits provided by this Agreement shall be pro rated on the ratio of the remaining portion of said three year period to the full three year period following Change in Control.

(e) "Excess Parachute Payment": Anything herein to the contrary notwithstanding, in the event that an independent accountant shall determine that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms hereof or otherwise) (a "Payment") would be nondeductible by the Company for Federal income tax purposes because of Code Section 280G or would constitute an "excess parachute payment" (as defined in Code Section 280G), then the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant hereto or pursuant to any other agreement with the company because of the occurrence of a Change in Control (such payments or distributions are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. For purposes of this paragraph, the "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any payment to be nondeductible by the Company because of Code Section 280G or without causing any portion of the Payment to be subject to the excise tax imposed by Code Section 4999.

If the independent accountant determines that any Payment would be nondeductible by the Company because of Code Section 280G or that any portion of the Payment would be subject to the excise tax imposed by Code Section 4999, the Company shall promptly give Executive notice to that effect. The Executive may then elect,in the Executive's sole discretion, which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Agreement Payments equals the Reduced Amount, and shall advise the Company in writing of the Executive's election within ten (10) days after the Executive's receipt of such notice. If no such election is made by the Executive within such ten-day period, the Company may elect which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Agreement Payments equals the Reduced Amount) and shall notify the Executive promptly of such election. For purposes of this paragraph, present value shall be determined in accordance with Code Section 280G(d)(4). All determinations made by the independent accountant under this paragraph shall be binding upon the Company and the Executive and shall be made within sixty (60) days of a termination of employment of the Executive. As promptly as practicable following such determination and the elections hereunder, the Company shall pay to or distribute to or for the benefit of the Executive such amounts as are then due to the Executive hereunder and shall promptly pay to or distribute for the benefit of the Executive in the future such amounts as become due to the Executive hereunder.

As a result of the uncertainty in the application of Code Section 280G and 4999 at the time of the initial determination by the independent accountant hereunder, it is possible that Agreement Payments will be made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company should have been made ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the independent accountant, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive which the independent accountant believes has a high probability of success, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company, together with interest at the applicable Federal rate provided for in Code Section 7872(f)(2); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the amount which is subject to taxation under Code Section 4999 or if the period of limitations for assessment of tax under Code Section 4999 against the Executive shall have expired. If the Executive is required to repay an amount under this Section, the Executive shall repay such amount over a period of time not to exceed one (1) year for each twenty-five thousand dollars ($25,000) which the Executive must repay to the Company. In the event that the independent accountant, based upon controlling precedent, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest at the applicable Federal rate provided for in Code Section 7872(f)(2)(A).

4.2 Death. If the Executive's employment is terminated by reason of the Executive's death during the Term hereof (either prior or subsequent to a Change in Control but prior to a termination of employment by the Executive), this Agreement shall terminate without further obligation to the Executive's legal representatives hereunder.

4.3 Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Term hereof subsequent to a Change in Control, this Agreement shall terminate without further obligations to the Executive.

4.4 Termination for Cause; Executive's Termination Other Than for Good Reason After a Change in Control. If the Executive's employment shall be terminated for Cause during the Term hereof (either prior to or subsequent to a Change in Control), this Agreement shall terminate without further obligations to the Executive. If the Executive terminates employment with the Company during the Term hereof (other than for Good Reason after a Change in Control), this Agreement shall terminate without further obligations to the Executive.

4.5 Non-Exclusivity of Rights. Nothing herein shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company. Amounts which are vested benefits of which the Executive is otherwise entitled to receive under any plan, policy, practice or program of , or any contract or agreement with, the Company at or subsequent to the Date of Termination, shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

4.6 Full Settlement. The Company's obligation to make the payments provided for herein and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, other than for the repayment of any debt owed the Company which is in default or to receive reimbursement of funds determined to have been taken through malfeasance. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amount payable to the Executive under any of the provisions hereof. The Company agrees, only on and after a Change in Control Date, to pay promptly as incurred all reasonable legal fees and expenses which the Executive may reasonably incur as a result of any unsuccessful contest by the Company or successful contest by the Executive, his heirs, agents or attorneys-in-fact, of the validity or enforceability of, or liability under, any provision hereof or any guarantee of performance thereof, plus in each case interest on any delayed payment at the applicable Federal rate provided for in Code Section 7872(f)(2)(A). If Executive commits acts of malfeasance during his employment which result in the conviction of said Executive of a crime, Executive shall be entitled to no benefits under this agreement from and after the date of such conviction.

4.7 Resolution of Disputes. If there shall be any dispute between the Company and the Executive (a) in the event of any termination of the Executive's employment by the Company, whether or not such termination was for Cause, or (b) in the event of any termination of employment by the Executive, whether Good Reason existed, then, the entire amount payable under Section 4.1 of this agreement shall be held in escrow until there is a final nonappealable judgment by a court of competent jurisdiction. If said judgment declares that such termination was without Cause or that the determination by the Executive of the existence of Good Reason was made in good faith, the Escrow Agent shall, only on and after a Change in Control Date, pay all amounts, including any interest earned on any funds held in escrow, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 4.1 as though such termination were by the Company without Cause or by the Executive with Good Reason. In the event, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph, such funds shall be payable to the Company.

During the period of time the funds are held in escrow, the Escrow Agent shall pay to the Executive, the Executive's spouse, or named beneficiary, as the case may be, a monthly amount of 1/36 of the severance amount less any monthly W-2, Schedule C or Schedule F earnings reportable on Internal Revenue Service Form 1040 which are received by the Executive from his present employer, or any future employer or employers, until the earlier of 36 months or the exhaustion of the entire severance amount plus interest thereon.

The severance amount set aside in escrow shall be invested according to the provisions of the escrow agreement attached hereto as "Exhibit A" and the interest earned included in the Amount payable to the Executive.

As a condition of placing the severance amount in escrow, the Executive shall execute an agreement which shall be binding on Executive's spouse or other beneficiaries to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

Section 5: Confidential Information.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company and its or their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company and which shall not be or become public knowledge (other than by acts of the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company, or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

Section 6: Successors.

6.1 Successors of Executive. This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

6.2 Successors of Company. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement upon the effectiveness of any such succession shall be a breach hereof and shall entitle the Executive to terminate under the terms of the Agreement at the Executive's option on or after the Change in Control for Good Reason. As used herein, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

Section 7: Miscellaneous.

7.1 Notice. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested,postage prepaid, addressed to the respective addresses as set forth below; provided that all notices to the Company shall be directed to the attention of the Chairman of the Board of the Company with copies to the Chief Executive Officer and the Secretary of the Company, or to such other address as one party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

Notice to Executive:

Stuart R. Johnson
2803 Confederate Avenue
Tupelo, MS 38801

Notice to Company:

The Peoples Holding Company
209 Troy Street
P. O. Box 709
Tupelo, MS 38802-0709

7.2 Validity. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other portion of this Agreement.

7.3 Withholding. The Company may withhold from any amounts payable hereunder such federal, state, or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

7.4 Waiver. The Executive's or the Company's failure to insist upon a strict compliance with any provision hereof or any other provision hereof or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation,the right of the Executive to terminate employment for Good Reason pursuant to Section 3.4 shall not be deemed to be a waiver of such provision or right or any other provision or right hereof.

7.5 Effect on Other Employment Agreements. The terms hereof shall supersede all other employment or other agreements with respect to severance entered into by and between the Executive and the Company, or the Executive and any other employer, and this Agreement shall constitute the governing agreement pursuant to which the Company shall have obligations to the Executive upon the termination of the Executive's relationship with the Company or any subsidiary.

IN WITNESS WHEREOF, the Executive and the Company, pursuant to the authorization from its Board, have caused this Agreement to be executed in its name on its behalf,all as of the day and year first above written.

By : /s/ Stuart R. Johnson

Stuart R. Johnson
EXECUTIVE

ATTEST	THE PEOPLES HOLDING COMPANY
By : /s/ Martha Webb	By : /s/ E. Robinson McGraw
Martha Webb	E. Robinson McGraw
Secretary	President and Chief Executive Officer

Exhibit 10.9

THE PEOPLES HOLDING COMPANY

EMPLOYMENT AGREEMENT

This Agreement ("Agreement") has been entered into this 10th day of February, 1998, by and between The Peoples Holding Company ("Company"), and James W. Gray, an individual ("Executive").

RECITALS

The Board of Directors of the Company ("Board") has determined that it is in the best interest of the Company and its stockholders to reinforce and encourage the continued attention and dedication of the Executive to the Company as a member of management of the Company or as a member of management of a subsidiary of the Company, and to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat, or occurrence of a Change in Control (as defined below) of the Company. The Board believes that it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control and to encourage the Executive's full attention and dedication to the Company or a subsidiary currently and in the event of any threatened or pending Change in Control which ensures that the compensation and benefit expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

IT IS AGREED AS FOLLOWS:

Section 1: Definitions and Construction.

1.1 Definitions. For purposes of this Agreement, the following words and phrases, whether or not capitalized, shall have the meaning specified below unless the context plainly requires a different meaning.

(a) "Board" means the Board of Directors of the Company.

(b) "Change in Control" means any liquidation, dissolution, consolidation or merger of the Company in which the Company is not a continuing or surviving corporation.

(c) "Change in Control Date" shall mean the date of the change in control.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(e) "Company" means The Peoples Holding Company, a Mississippi Corporation, for the purpose of determining if a change in control has occurred. For the purpose of an employment relationship, it includes any subsidiary or successor of The Peoples Holding Company.

(f) "Effective Date" shall mean February 10, 1998.

(g) "Exchange Act" means the Securities and Exchange Act of 1934, as amended.

(h) "Person" means any "person" within the meaning of Section 13(d) and 14(d) of the Exchange Act.

(i) "Term" means the period that begins on the effective date and ends on the anniversary of the effective date, unless prior thereto a Change in Control shall have occurred. This contract shall automatically renew for additional one- (1) year terms unless either party shall give the other party at least ninety (90) days' advance written notice of said party's intention not to renew said contract; provided, however, the Company shall not be able to give notice of its intention not to renew the contract following a Change in Control or if it is involved in any negotiations, whether formal or informal, that may result in a Change in Control.

1.2 Gender and Number. When appropriate, pronouns herein used in the masculine gender include the feminine gender, words in the singular include the plural, and words in the plural include the singular.

1.3 Headings. All headings herein are included solely for ease of reference and do not bear on the interpretation of the text. Accordingly, as used herein, the terms "Article" and "Section" mean the text that accompanies the specified Article or Section hereof.

1.4 Applicable Law. This agreement shall be governed by and construed in accordance with the laws of the State of Mississippi without reference to its conflicts of law principles.

Section 2: Terms and Conditions of Employment.

2.1 Severance Benefits. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's agreeing to remain in the employ of the Company, subject to the terms and conditions set forth herein, this Agreement sets forth the severance benefits which the Company agrees will be provided to the Executive in the event the Executive's employment with the Company is terminated subsequent to a Change in Control under the circumstances described herein.

2.2 Positions and Duties. Prior to the receipt of benefits under this Agreement, the Executive shall serve as an officer of the Company or of a subsidiary thereof, subject to the reasonable directions of the Board and the immediate superior of the Executive. During the term of this Agreement, Executive agrees that Executive will not voluntarily leave the employ of the Company except as may be provided hereunder. Any violation of this Section 2.2 by the Executive prior to a Change in Control shall result in a termination hereof, and the Executive shall have no other liability hereunder for such action. In consideration of this, the Company agrees that following a Change in Control, the Executive's authority, duties and responsibilities shall be at least commensurate in all material respects with those assigned to, or held and exercised by, the Executive immediately preceding the date on which a Change in Control occurs. Notwithstanding the foregoing, the Company may terminate the Executive's employment at any time, subject to providing the benefits hereinafter specified and in accordance with the terms hereof.

2.3 Situs of Employment. Following a Change in Control, the new entity shall make a good faith effort to provide the Executive with the type and kind of employment described herein at the location where the Executive was providing his services prior to the Change of Control. However, if the new entity decides it must transfer or relocate the Executive, it will provide the Executive the following benefits: (a) purchase the Executive's home at its average appraised value plus at least 10% of the appraised value (appraised value being the average of an appraised value by a duly licensed and qualified appraiser selected by the Executive and the appraised value of a duly licensed and qualified appraiser selected by Company); (b) pay all reasonable cost and expenses incurred by the Executive in moving to a new location; (c) provide the Executive an immediate increase in his annual income of at least 6%; (d) require no transfer or relocation of an Executive who has school age children until the end of the school year; (e) pay to Executive seventy-five percent (75%), not to exceed Five Thousand Dollars ($5,000.00) per child per year, of the tuition of a private school if Executive has a school child or children and the Executive reasonably determines it to be in the best interest of such child or children to attend a private school at the new situs of employment.

2.4 Compensation.

(a) Annual Base Salary. The Annual Base Salary ("Annual Base Salary")shall be an amount equal to the salary the Executive was receiving during the month immediately preceding a Change in Control computed on an annualized basis.

(b) Incentive Bonuses. Incentive Bonuses ("Incentive Bonus") shall mean any bonuses provided through any incentive compensation plan, subject to the provisions of such plan.

(c) Welfare Benefit Plans. Welfare benefit plans shall mean practices, policies and programs provided by the Company (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs), subject to the provision of such welfare benefit plans.

Section 3: Termination of Employment.

3.1 Death. The Executive's employment shall terminate automatically upon the Executive's death during the Term of this Agreement and prior to a termination of employment by the Executive.

3.2 Disability. Following a Change in Control, if the Company determines in good faith that a Disability of the Executive has occurred (pursuant to the definition of Disability set forth below), the Company may give to the Executive written notice in accordance with Section 7.1 of the intention of the Company to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the thirtieth (30th) day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the thirty (30) days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean that the Executive has been unable to perform the services required of the Executive hereunder on a full-time basis for a period of one hundred-eighty (180) consecutive business days by reason of a physical and/or mental condition. "Disability" shall be deemed to exist when certified by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably). The Executive will submit to such medical or psychiatric examinations and tests as such physician deems necessary to make any such Disability determination.

3.3 Termination for Cause. Following a Change in Control, the Company may terminate the Executive's employment for "Cause," which shall mean termination based upon: (a) the Executive's willful and continued failure to perform the Executive's duties with the Company (other than as a result of incapacity due to physical or mental condition), after a demand for substantial performance is delivered to the Executive by the Chief Executive Officer of the Company or the Chairman of the Board, which specifically identifies the manner in which the Executive has not substantially performed the Executive's duties, (b) the Executive's willful commission of misconduct which is materially injurious to the Company, monetarily or otherwise, or (c) the Executive's material breach of any provision of this Agreement. For purposes of this paragraph, no act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, without good faith and without reasonable belief that the act or omission was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until (a) the Executive receives a notice of Termination (as defined in Section 3.5) from the Chief Executive Officer of the Company or the Chairman of the Board, (b) the Executive is given the opportunity, with counsel, to be heard before the Board, and (c) the Board finds, in its good faith opinion, that the Executive was guilty of the conduct set forth in the Notice of Termination.

3.4 Good Reason. Following a Change in Control, the Executive may terminate employment with the Company for "Good Reason," which shall mean termination based upon:

(a) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position, authority, duties or responsibilities as contemplated by Section 2.2 or any other action by the Company which results in a material diminution in such position, authority, duties or responsibilities, excluding for this purpose any action not taken in bad faith and which is remedied by the Company promptly after notice thereof given by the Executive;

(b) (i) the failure by the Company to continue in effect any benefit or compensation plan, stock ownership plan, life insurance plan, health and accident plan or disability plan in which the Executive is participating as specified in Section 2.4(b) or 2.4(c) or (ii) the taking of any action by the Company which would adversely affect the Executive's participation in,or materially reduce the Executive's benefits under, any plans described in Section 2.4(b) or 2.4(c),or deprive the Executive of any material fringe benefit enjoyed by the Executive as described in Section 2.4(b) or 2.4(c);

(c) a material breach by the Company of any provision hereof;

(d) any termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement;

(e) within a period ending at the close of business on the date three (3) years after the Change in Control Date, any failure by the Company to comply with and satisfy Section 6.2 on or after the Change in Control Date.

3.5 Notice of Termination. Any termination by the Company for Cause or Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party, given in accordance with Section 7.1. For purposes of this Agreement, a "notice of Termination" means a written notice which (a) indicates the specific termination provision herein relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (c) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty [30] days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

3.6 Date of Termination. "Date of Termination" means (a) if the Executive's employment is terminated by the Company with or without Cause, or by the Executive for Good Reason, the date of Termination shall be the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, or (b) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

Section 4: Certain Benefits Upon Termination of Employment.

4.1 Termination after a Change in Control. If a Change in Control occurs during the Term of this Agreement and within three (3) years after such Change in Control, either the Company shall terminate the Executive's employment without Cause, or the Executive shall terminate employment with the Company for Good Reason, then the Executive shall be entitled to the benefits provided below for the three year period after Change in Control or the remaining portion of said three year period following the date of termination.

(a) "Accrued Obligations": On the tenth (10th) business day following the Date of Termination, the Company shall pay to the Executive the sum of (i) the Executive's Annual Base Salary prorated through the Date of Termination to the extent not previously paid, and (ii) any accrued vacation pay to the extent not previously paid.

(b) "Severance Amount": The "Severance Amount" shall be an amount equal to 2.99 times the Executive's Annual Base Salary in effect on the business day prior to the Date of Termination plus 2.99 times the average annual incentive bonus for the two years prior to the Change in Control. The Company shall set aside this amount in escrow for a period of three years and the Escrow Agent shall pay to the Executive, beginning on the tenth (10th) business day following the Date of Termination, a monthly amount of one-thirty-sixth (1/36) of the severance amount less any monthly W-2, Schedule C or Schedule F earnings reportable on Internal Revenue Service Form 1040 which are received by the Executive from his present employer or any future employer or employers for a period of 36 months or until the earlier exhaustion of the entire severance amount plus interest thereon.

In the event of the Executive's death after a termination for which a "Severance Amount" is payable, the Escrow Agent shall continue to pay to the Executive's spouse or other named beneficiary the remaining obligation owed the Executive under the terms of this contract and the Escrow Agreement. The Company may, however, at its option, elect to pay the Severance Amount to the Executive, or in the event of his death, his spouse or other named beneficiary, in the form of a lump-sum cash payment on or before the date the first monthly payment is due; or the Company, at its option, at anytime during the term of the Escrow Agreement, can direct the Escrow Agent to pay the Executive, the Executive's spouse, or named beneficiary, as the case may be, the then remaining balance of the severance amount, plus any accrued and accumulated interest thereon, in the form of a lump-sum cash payment, and the rights and obligations of all parties under both the Employment Agreement and Escrow Agreement shall be terminated.

In the event, subsequent to the Change in Control, the Executive becomes an employee of any competing commercial bank, savings bank, savings and loan association, or credit union ("financial institution") in the defined market area of the Employer prior to the Change in Control, then any obligation of the Employer under this Section is terminated, and the Executive shall not be entitled to any further benefits under this Agreement.

The severance amount set aside in escrow shall be invested according to the provisions of the escrow agreement attached hereto as "Exhibit A" and the interest earned included in the amount payable to the Executive. Any severance amounts not paid to the Executive shall be returned to the Company at the end of the 36-month escrow period, or sooner should the Executive accept employment with a competing "financial institution" as defined above. All interest earned on the account shall be paid to the Executive following the final severance payment.

(c) "Other Benefits": To the extent not previously provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided for which the Executive and/or the Executive's family is eligible to receive pursuant hereto and under any plan, program, policy or practice or contract or agreement of the Company as those provided generally to other peer executives and their families during the ninety (90) day period immediately preceding the Effective Date or, if more favorable to the Executive, as those provided generally after the Effective Date to other peer executives of the Company and their families.

(d) If termination of the Executive occurs less than three years after such Change in Control, then the benefits provided by this Agreement shall be pro rated on the ratio of the remaining portion of said three year period to the full three year period following Change in Control.

(e) "Excess Parachute Payment": Anything herein to the contrary notwithstanding, in the event that an independent accountant shall determine that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms hereof or otherwise) (a "Payment") would be nondeductible by the Company for Federal income tax purposes because of Code Section 280G or would constitute an "excess parachute payment" (as defined in Code Section 280G), then the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant hereto or pursuant to any other agreement with the company because of the occurrence of a Change in Control (such payments or distributions are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. For purposes of this paragraph, the "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any payment to be nondeductible by the Company because of Code Section 280G or without causing any portion of the Payment to be subject to the excise tax imposed by Code Section 4999.

If the independent accountant determines that any Payment would be nondeductible by the Company because of Code Section 280G or that any portion of the Payment would be subject to the excise tax imposed by Code Section 4999, the Company shall promptly give Executive notice to that effect. The Executive may then elect,in the Executive's sole discretion, which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Agreement Payments equals the Reduced Amount, and shall advise the Company in writing of the Executive's election within ten (10) days after the Executive's receipt of such notice. If no such election is made by the Executive within such ten-day period, the Company may elect which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Agreement Payments equals the Reduced Amount) and shall notify the Executive promptly of such election. For purposes of this paragraph, present value shall be determined in accordance with Code Section 280G(d)(4). All determinations made by the independent accountant under this paragraph shall be binding upon the Company and the Executive and shall be made within sixty (60) days of a termination of employment of the Executive. As promptly as practicable following such determination and the elections hereunder, the Company shall pay to or distribute to or for the benefit of the Executive such amounts as are then due to the Executive hereunder and shall promptly pay to or distribute for the benefit of the Executive in the future such amounts as become due to the Executive hereunder.

As a result of the uncertainty in the application of Code Section 280G and 4999 at the time of the initial determination by the independent accountant hereunder, it is possible that Agreement Payments will be made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company should have been made ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the independent accountant, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive which the independent accountant believes has a high probability of success, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company, together with interest at the applicable Federal rate provided for in Code Section 7872(f)(2); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the amount which is subject to taxation under Code Section 4999 or if the period of limitations for assessment of tax under Code Section 4999 against the Executive shall have expired. If the Executive is required to repay an amount under this Section, the Executive shall repay such amount over a period of time not to exceed one (1) year for each twenty-five thousand dollars ($25,000) which the Executive must repay to the Company. In the event that the independent accountant, based upon controlling precedent, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest at the applicable Federal rate provided for in Code Section 7872(f)(2)(A).

4.2 Death. If the Executive's employment is terminated by reason of the Executive's death during the Term hereof (either prior or subsequent to a Change in Control but prior to a termination of employment by the Executive), this Agreement shall terminate without further obligation to the Executive's legal representatives hereunder.

4.3 Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Term hereof subsequent to a Change in Control, this Agreement shall terminate without further obligations to the Executive.

4.4 Termination for Cause; Executive's Termination Other Than for Good Reason After a Change in Control. If the Executive's employment shall be terminated for Cause during the Term hereof (either prior to or subsequent to a Change in Control), this Agreement shall terminate without further obligations to the Executive. If the Executive terminates employment with the Company during the Term hereof (other than for Good Reason after a Change in Control), this Agreement shall terminate without further obligations to the Executive.

4.5 Non-Exclusivity of Rights. Nothing herein shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company. Amounts which are vested benefits of which the Executive is otherwise entitled to receive under any plan, policy, practice or program of , or any contract or agreement with, the Company at or subsequent to the Date of Termination, shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

4.6 Full Settlement. The Company's obligation to make the payments provided for herein and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, other than for the repayment of any debt owed the Company which is in default or to receive reimbursement of funds determined to have been taken through malfeasance. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amount payable to the Executive under any of the provisions hereof. The Company agrees, only on and after a Change in Control Date, to pay promptly as incurred all reasonable legal fees and expenses which the Executive may reasonably incur as a result of any unsuccessful contest by the Company or successful contest by the Executive, his heirs, agents or attorneys-in-fact, of the validity or enforceability of, or liability under, any provision hereof or any guarantee of performance thereof, plus in each case interest on any delayed payment at the applicable Federal rate provided for in Code Section 7872(f)(2)(A). If Executive commits acts of malfeasance during his employment which result in the conviction of said Executive of a crime, Executive shall be entitled to no benefits under this agreement from and after the date of such conviction.

4.7 Resolution of Disputes. If there shall be any dispute between the Company and the Executive (a) in the event of any termination of the Executive's employment by the Company, whether or not such termination was for Cause, or (b) in the event of any termination of employment by the Executive, whether Good Reason existed, then, the entire amount payable under Section 4.1 of this agreement shall be held in escrow until there is a final nonappealable judgment by a court of competent jurisdiction. If said judgment declares that such termination was without Cause or that the determination by the Executive of the existence of Good Reason was made in good faith, the Escrow Agent shall, only on and after a Change in Control Date, pay all amounts, including any interest earned on any funds held in escrow, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 4.1 as though such termination were by the Company without Cause or by the Executive with Good Reason. In the event, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph, such funds shall be payable to the Company.

During the period of time the funds are held in escrow, the Escrow Agent shall pay to the Executive, the Executive's spouse, or named beneficiary, as the case may be, a monthly amount of 1/36 of the severance amount less any monthly W-2, Schedule C or Schedule F earnings reportable on Internal Revenue Service Form 1040 which are received by the Executive from his present employer, or any future employer or employers, until the earlier of 36 months or the exhaustion of the entire severance amount plus interest thereon.

The severance amount set aside in escrow shall be invested according to the provisions of the escrow agreement attached hereto as "Exhibit A" and the interest earned included in the Amount payable to the Executive.

As a condition of placing the severance amount in escrow, the Executive shall execute an agreement which shall be binding on Executive's spouse or other beneficiaries to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

Section 5: Confidential Information.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company and its or their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company and which shall not be or become public knowledge (other than by acts of the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company, or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

Section 6: Successors.

6.1 Successors of Executive. This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

6.2 Successors of Company. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement upon the effectiveness of any such succession shall be a breach hereof and shall entitle the Executive to terminate under the terms of the Agreement at the Executive's option on or after the Change in Control for Good Reason. As used herein, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

Section 7: Miscellaneous.

7.1 Notice. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested,postage prepaid, addressed to the respective addresses as set forth below; provided that all notices to the Company shall be directed to the attention of the Chairman of the Board of the Company with copies to the Chief Executive Officer and the Secretary of the Company, or to such other address as one party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

Notice to Executive:

James W. Gray
4630 Ridgemoor
Tupelo, MS 38801

Notice to Company:

The Peoples Holding Company
209 Troy Street
P. O. Box 709
Tupelo, MS 38802-0709

7.2 Validity. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other portion of this Agreement.

7.3 Withholding. The Company may withhold from any amounts payable hereunder such federal, state, or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

7.4 Waiver. The Executive's or the Company's failure to insist upon a strict compliance with any provision hereof or any other provision hereof or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation,the right of the Executive to terminate employment for Good Reason pursuant to Section 3.4 shall not be deemed to be a waiver of such provision or right or any other provision or right hereof.

7.5 Effect on Other Employment Agreements. The terms hereof shall supersede all other employment or other agreements with respect to severance entered into by and between the Executive and the Company, or the Executive and any other employer, and this Agreement shall constitute the governing agreement pursuant to which the Company shall have obligations to the Executive upon the termination of the Executive's relationship with the Company or any subsidiary.

IN WITNESS WHEREOF, the Executive and the Company, pursuant to the authorization from its Board, have caused this Agreement to be executed in its name on its behalf,all as of the day and year first above written.

By : /s/ James W. Gray

James W. Gray
EXECUTIVE

ATTEST	THE PEOPLES HOLDING COMPANY
By : /s/ Martha Webb	By : /s/ E. Robinson McGraw
Martha Webb	E. Robinson McGraw
Secretary	President and Chief Executive Officer

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 33-20108 and Form S-8 No. 333-102152) of The Peoples Holding Company and in the related Prospectus of our report dated January 21, 2003, with respect to the consolidated financial statements of The Peoples Holding Company included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

Memphis, Tennessee /s/ Ernst & Young LLP
March 5, 2003