
**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, 2004

Commission file number 001-13253

THE PEOPLES HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Mississippi
(State or other jurisdiction of
incorporation or organization)

**209 Troy Street
Tupelo, Mississippi 38802**
(Address of principal executive offices) (Zip Code)

64-0676974
(I.R.S. Employer
Identification No.)

(662) 680-1001
(Registrant's telephone number)

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

Common Stock, \$5.00 Par Value
(Title of Class)

American Stock Exchange
(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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 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 ☒ NO ☐

As of June 30, 2004, the aggregate market value of the registrant's common stock, \$5.00 par value, held by non-affiliates of the registrant was \$267,897,024.

As of February 28, 2005, 10,397,520 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, 2005, relating to the 2005 annual meeting of shareholders of The Peoples Holding Company, are incorporated by reference into Part III.

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THE PEOPLES HOLDING COMPANY

Form 10-K

For the year ended December 31, 2004

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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.

The information set forth in this Annual Report on Form 10-K is as of March 14, 2005, unless otherwise indicated herein.

ITEM 1. BUSINESS

General

The Peoples Holding Company (referred to herein as the “Company,” “we,” “our,” or “us”), a Mississippi corporation, owns and operates Renasant Bank (formerly known as The Peoples Bank & Trust Company) with operations in Mississippi and Alabama and Renasant Bank of Tennessee (formerly known as Renasant Bank) with operations in Tennessee, and Renasant Insurance, Inc. (formerly known as The Peoples Insurance Agency, Inc.) with operations in Mississippi. Renasant Insurance, Inc. is a wholly owned subsidiary of Renasant Bank. Renasant Bank and Renasant Bank of Tennessee are also referred to herein individually as a “Bank” and collectively as the “Banks,” and Renasant Insurance, Inc. is also referred to herein as “Renasant Insurance.”

Our vision is to be the financial services advisor and provider of choice in each community we serve. With this vision in mind, management has organized 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 these 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; the number and type of services provided per household; fee income shown as a percent of loans and deposits; the efficiency ratio; loan and deposit growth; net interest margin and spread; the percentage of loans past due in greater than 30, 60 and 90 day categories; and net charge-offs to average loans. While we have preserved decision-making at a local level, we have centralized our legal, accounting, investment, loan review, audit and data processing functions. The centralization of these processes enables us to maintain consistent quality of these functions and achieve certain economies of scale.

Our vision is further validated through our core values. These values state that (1) employees are our greatest assets, (2) quality is not negotiable, and (3) clients’ trust is foremost. Centered on these values was 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.

Acquisitions

On July 1, 2004, the Company acquired Renasant Bancshares, Inc. (“Renasant Bancshares”), a bank holding company headquartered in Germantown, Tennessee, by virtue of a merger of Renasant Bancshares into Peoples Merger Corporation, a wholly-owned subsidiary of the Company. The Company issued 802,094 shares of its common stock and paid \$26.1 million in cash as merger consideration to the shareholders of Renasant Bancshares. Renasant Bank of Tennessee, Renasant Bancshares’ sole subsidiary, continues to operate under its charter as an indirect subsidiary of the Company. Renasant Bank of Tennessee operates two banking offices in Germantown and Cordova, Tennessee and a loan production office in Nashville, Tennessee.

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On January 1, 2005, the Company acquired via merger Heritage Financial Holding Corporation (“Heritage”), a bank holding company headquartered in Decatur, Alabama. The Company issued approximately 1.4 million shares of its common stock and paid approximately \$23.1 million in cash as merger consideration to the shareholders of Heritage. Heritage Bank, a wholly-owned subsidiary of Heritage with eight banking offices in Decatur, Huntsville and Birmingham, Alabama, was merged into Renasant Bank immediately after the consummation of the merger of Heritage into the Company.

Operations

We have four reportable segments: a Mississippi community bank, a Tennessee community bank, an Alabama community bank and an insurance agency. Financial information about three of our four segments, including information with respect to revenues from external customers, profit or loss, and total assets for each segment, is contained in the notes to the Company’s consolidated financial statements located in Item 8 of this report. Financial information about our Alabama community bank segment is not included in the notes to the Company’s consolidated financial statements because this community bank was acquired effective January 1, 2005.

Operations of Renasant Bank and Renasant Bank of Tennessee

Substantially all of our business activities are conducted through, and substantially all of our assets and revenues are derived from the Banks, which are community banks offering a complete range of banking and financial services to individuals to 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 are located throughout our market area. Our Internet Banking product and our call center also provide 24-hour banking services. Accounts receivable financing is also available to qualified businesses.

On January 31, 2005, we had 56 banking and financial services offices located throughout our market of central and northern Mississippi and southwest Tennessee, with offices located in the key cities of Tupelo, Hernando, Horn Lake, Olive Branch, Oxford and Southaven, Mississippi and Germantown and Cordova, Tennessee. Our acquisition of Heritage Bank, which was consummated on January 1, 2005, gives us access to the central and northern Alabama markets, with eight full service banking offices located in the key cities of Birmingham, Huntsville and Decatur, Alabama.

Our lending philosophy is to minimize credit losses by following strict credit approval standards, diversifying our loan portfolio and conducting ongoing review and management of the loan portfolio. The following is a description of each of the principal types of loans in our loan portfolio, the relative risk of each type of loan and the steps we take to reduce credit risk. A further discussion of our risk reduction policies and procedures can be found in Management’s Discussion and Analysis of Financial Condition and Results of Operations under the heading “Risk Management—Credit Risk and Allowance for Loan Losses.”

Commercial Loans. These loans are customarily granted to established local business customers in our market area on a fully collateralized basis to meet their credit needs. The loans can be extended for periods of between one year and five years and are usually structured either to fully amortize over the term of the loan or to balloon after the third year or fifth year of the loan typically with an amortization period not to exceed 10 years. The terms and loan structure are dependent on the collateral and strength of the borrower. The loan-to-value ratios range from 50% to 80%. The risks of these types of loans depend on the general business conditions of the local economy and the local business borrower’s ability to sell its products and services in order to generate sufficient operating revenue to repay us under the agreed upon terms and conditions.

Commercial lending generally involves greater credit risk than residential real estate or consumer lending. Commercial lending risks are generally different from those associated with commercial real estate lending. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default may represent an insufficient source of repayment because equipment and other business assets may, among other things, be obsolete or of limited use. Accordingly, the repayment of a commercial loan depends primarily on the credit worthiness and projected cash flow of the borrower (and any guarantors), while liquidation of collateral is considered a secondary source of repayment. To manage these risks, the Banks’ policy is to secure its commercial loans with both the assets of the borrowing business and any other additional collateral and guarantees that may be available. In addition, we actively monitor certain financial measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors.

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Commercial Real Estate. We offer commercial real estate loans to developers of both commercial and residential properties. Because payments on these loans are often dependent on the successful development, operation and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy as a whole. If the estimate of value proves to be inaccurate, we may not be able to obtain full repayment on the loan in the event of default and foreclosure. We seek to minimize risks by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. We also actively monitor such financial measures as advance rate, cash flow, collateral value and other appropriate credit factors. We generally obtain loan guarantees from financially capable parties to the transaction based on a review of personal financial statements.

Residential Real Estate. We are an active residential mortgage lender. We offer both first and second mortgage residential real estate as well as home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers for purchases, refinances, home improvements, education and other personal expenditures. Both fixed and variable rate loans are offered with competitive terms and fees. We retain loans for our portfolio when the Banks have sufficient liquidity to fund the needs of established customers and when rates are favorable to retain the loans. We also originate certain residential mortgage loans for sale in the secondary loan market. These loans are collateralized by one-to-four family residential real estate and are sold with servicing rights released. The risk we assume is conditioned upon loan underwriting and market conditions in the national mortgage market. The risk associated with residential real estate loans is minimized by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower.

Construction Loans. Our construction loans represent approximately 8% of our total loans. Our construction loan portfolio consists of single family residential properties, multi-family properties and commercial projects. Maturities for construction loans generally range from 6 to 12 months for residential property and from 12 to 24 months for non-residential and multi-family properties. Construction lending entails significant additional risks compared with residential mortgage lending. A significant additional risk is that loan funds are advanced upon the security of property under construction, which is of uncertain value prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and to calculate related loan-to-value ratios. To minimize the risks associated with construction lending, we limit loan-to-value ratios to 85% of when-completed appraised values for owner-occupied residential or commercial properties, and to 80% of when-completed appraised values for investor-owned residential or commercial properties. We believe that these loan-to-value ratios will be sufficient to compensate for fluctuations in the real estate market and thus minimize the risk of loss.

Consumer Loans. These loans are granted to individuals for the purchase of personal goods. These loans are generally granted for periods ranging between one and five years at fixed rates of interest 1% to 5% above prime interest rate quoted in The Wall Street Journal. Loss or decline of income by the borrower due to unplanned occurrences may represent risk of default to us. In the event of default, a shortfall in the value of the collateral may pose a loss to us in this loan category. We assess the applicant's credit history and ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. We obtain a lien against the item securing the loan and hold title until the loan is repaid in full.

No material portion of our deposits has been obtained from a single or small group of customers, and the loss of any single customer's deposits or a small group of customer's deposits would not have a material adverse effect on our business. The deposits held by our Banks have been primarily generated within their respective market areas. Neither we nor the Banks have any foreign activities.

Through the Financial Services division of Renasant Bank, we also 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, the Financial Services division offers annuities, mutual funds and other investment services through a third party broker-dealer. The Financial Services division does not constitute a separately-reportable segment for financial reporting purposes.

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Certain members of our Board of Directors also serve as members of the Board of Directors of the Banks. Responsibility for the management of our Banks remains with the Board of Directors and officers of the respective Banks; however, management services rendered by us to the Banks are intended to supplement the internal management and expand the scope of banking services normally offered by them.

Operations of Renasant Insurance

Renasant Insurance is a full-service insurance agency offering all lines of commercial and personal insurance through major carriers. At December 31, 2004, Renasant Insurance contributed total revenue of approximately \$4.1 million, or 4.64% of the Company's total revenue and operated 3 offices in central and northern Mississippi.

Competition

Banking

Vigorous competition exists in all major product and geographic areas in which we conduct banking business. We compete through our Banks 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 2004, we maintained approximately 17% of the market share (deposit base) in our Mississippi area, approximately 4% in our Tennessee area and less than 1% in our Alabama area. Other competitors, in these areas include AmSouth Bank, BancorpSouth, Compass Bank, Colonial Bank, First Tennessee Bank, Merchants and Farmers Bank, National Bank of Commerce, Regions Bank, and Trustmark National Bank. In addition, there are local community banks that compete with us on an individual market basis.

Insurance

We encounter strong competition in our markets in which we conduct insurance operations. Through our insurance subsidiary, we compete with independent insurance agencies and agencies affiliated with insurance carriers (e.g. Allstate, State Farm, etc.). All of these agencies compete in the delivery of personal and commercial product lines. There is no dominant insurance agency in our markets.

Supervision and Regulation

Banking

Under the current regulatory environment, nearly every facet of our banking operations is regulated pursuant to various state and federal banking laws, rules and regulations. The primary focus of these laws and regulations is the protection of depositors and the maintenance of the safety and soundness of the banking system as a whole and the insurance funds of the Federal Deposit Insurance Corporation ("FDIC"). 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. Discussions of statutes and regulations in this section focus only on certain provisions of such statutes and regulations and do not purport to be comprehensive. Such discussions are qualified in their entirety by reference to the relevant statutes and regulations. In addition, 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 "Federal Reserve"). We are required to file with the Federal Reserve an annual report and such other information as the Federal Reserve may require. The Federal Reserve may also make examinations of us and the Banks pursuant to the Act. The Federal Reserve has the authority (which to date it has not exercised) to regulate provisions of certain types of our debt.

The Act requires a bank holding company to obtain the prior approval of the Federal Reserve 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.

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The Act provides that the Federal Reserve 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. The Federal Reserve will also not approve any transaction in which the effect of the transaction might be to substantially lessen competition or in any manner amount to a restraint on trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the benefits to the public interest resulting from 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 to this prohibition is for a bank holding company engaging in or acquiring shares of a company whose activities are found by the Federal Reserve to be so closely related to banking or managing banks as to be a proper incident thereto. In making determinations whether activities are closely related to banking or managing banks, the Federal Reserve 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 and whether such public benefits outweigh the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest, or unsound banking practices.

The Company and the Banks 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 either of the Banks, on investments in the stock or other securities of the Company or either of the Banks, and on taking such stock or other securities as collateral for loans of any borrower.

On November 12, 1999, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the “Financial Services Modernization Act”) was signed into law. The Financial Services Modernization Act eliminates the barriers erected by the 1933 Glass-Steagall Act and amends the Bank Holding Company Act of 1956, among other statutes. Further, it allows for the affiliation of banking, securities and insurance activities in new financial services organizations.

A dominant theme of that legislation is functional regulation of financial services, with the primary regulator of the Company or its subsidiaries being the agency which traditionally regulates the activity in which the Company or its subsidiaries wishes to engage. For example, the Securities and Exchange Commission will regulate bank securities transactions, and the various banking regulators will oversee banking activities.

The principal provisions of the Financial Services Modernization Act will permit the Company, if it meets the standards for a “well-managed” and “well-capitalized” institution and has at least a “satisfactory” Community Reinvestment Act performance, to engage in any activity that is “financial in nature,” including security and insurance underwriting, investment banking, and merchant banking investing in commercial and industrial companies. The Company, if it satisfies the above criteria, can file a declaration of its status as a “financial holding company” (“FHC”) with the Federal Reserve, and thereafter engage directly or through nonbank subsidiaries in the expanded range of activities which the Financial Services Modernization Act identifies as financial in nature. Further, the Company, if it elects FHC status, will be able to pursue additional activities which are incidental or complementary in nature to a financial activity, or which the Federal Reserve subsequently determines to be financial in nature. As of December 31, 2004, we have not elected to become an FHC.

It is expected that the Financial Services Modernization Act will facilitate further consolidation in the financial services industry on both a national and international basis, and will cause existing bank holding companies to restructure their existing activities in order to take advantage of the new powers granted and comply with their attendant requirements and conditions.

Renasant 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. Renasant Bank of Tennessee was chartered under the laws of the State of Tennessee and is subject to the supervision of, and is regularly examined by, the Tennessee Department of Financial Institutions. Both banks are insured by the FDIC and are subject to examination and review by that regulatory authority.

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Under the Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Interstate Act”), the Company or any other bank holding company located in Mississippi or Tennessee is able to acquire a bank located in any other state, and a bank holding company located outside Mississippi or Tennessee can acquire any Mississippi or Tennessee-based bank, in either case subject to certain deposit percentage and other restrictions.

The Interstate Act also provides that, unless an individual state has elected to prohibit out-of-state banks from operating interstate branches within its territory, adequately capitalized and managed bank holding companies will be able to consolidate their multistate bank operations into a single bank subsidiary and to branch interstate through acquisitions. Under Mississippi law, out-of-state bank holding companies may establish a bank in Mississippi only by acquiring a Mississippi bank or Mississippi bank holding company. The State of Tennessee adopted legislation that authorizes out-of-state banks to operate interstate branches which have been acquired through acquisition within its territory effective June 1, 1997.

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 our Banks 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 Renasant Bank paying dividends; the amount of any dividend is limited to earned surplus in excess of three times its capital stock. The Tennessee Department of Financial Institutions has the authority to prohibit the payment of dividends by Renasant Bank of Tennessee if it determines such payment to be an unsafe and unsound banking practice.

Federal Reserve regulations also limit the amount the Banks may loan to us unless such loans are collateralized by specific obligations. At December 31, 2004, the maximum amount available for transfer from our Banks in the form of cash dividends and loans was 7.68% of their 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 in connection with the acquisition of savings associations 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 its 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.

On October 26, 2001, the President signed the USA PATRIOT Act of 2001 into law. This act contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the “IMLAFA”). The IMLAFA substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States, imposes new compliance and due diligence obligations, creates new crimes and penalties, compels the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States, and clarifies the safe harbor from civil liability to customers. The U.S. Treasury Department has issued a number of regulations implementing the USA PATRIOT Act that apply certain of its requirements to financial institutions such as our Banks. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The Treasury Department is expected to issue a number of additional regulations which will further clarify the USA PATRIOT Act’s requirements. The IMLAFA requires all “financial institutions,” as defined, to establish anti-money laundering compliance and due diligence programs no later than April 2002. Such programs must include, among other things, adequate policies, the designation of a compliance officer, employee training programs, and an independent audit function to review and test the program.

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The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) requires publicly traded companies 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 Sarbanes-Oxley Act requires certifications regarding financial statement accuracy and internal control adequacy by the chief executive officer and the chief financial officer in connection with periodic reports filed with the Securities and Exchange Commission (“SEC”). The Sarbanes-Oxley 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.

Insurance

Renasant Insurance is subject to licensing requirements and regulation under the laws of the United States and the State of Mississippi. The laws and regulations are primarily for the benefit of clients. In all jurisdictions, the applicable laws and regulations are subject to amendment by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Licenses may be denied or revoked for various reasons, including the violation of such regulations, conviction of crimes and the like. Possible sanctions which may be imposed for violation of regulations include suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures and fines.

Monetary Policy and Economic Controls

We and our subsidiary banks are affected by the policies of regulatory authorities, including the Federal Reserve. An important function of the Federal Reserve 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 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, the effect on our, and each Banks’ future business and earnings cannot be predicted with accuracy.

Sources and Availability of Funds

The funds essential to our, and to each of our Banks, business consist primarily of funds derived from customer deposits, federal funds purchased, Federal Home Loan Bank Advances and borrowings from correspondent banks by the Banks. 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, 2004, we employed 703 people at all of our subsidiaries on a full-time equivalent basis. Of this total, Renasant Bank accounted for 617 employees, Renasant Bank of Tennessee had 51 employees, and Renasant Insurance employed 35 individuals. The Company has no additional employees; however, at December 31, 2004, eight employees of Renasant Bank and one employee of Renasant Bank of Tennessee served as officers of the Company in addition to their positions with their respective bank. In connection with the Company’s acquisition of Heritage Bank, which was effective January 1, 2005, we added an additional 144 employees, including one employee who also serves as an officer of the Company in addition to his position with Renasant Bank.

Dependence Upon a Single Customer

Neither we nor our subsidiaries are dependent upon a single customer or upon a limited number of customers.

Available Information

Our Internet address is www.renasantbank.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 filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

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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, 2004, 2003, and 2002:

| | 2004 | | |
|---------------------------------------------------|-------------------------------------------------|---------------------------------------------|--------------------------|
| | <i>Tax Equivalent Income or Expense</i> | <i>Average Balance Sheet Amount</i> | <i>Yields/ Rates</i> |
| Interest-earning assets | | | |
| Loans, net of unearned income | | | |
| Commercial | \$ 36,527 | \$ 630,323 | 5.79% |
| Consumer | 14,957 | 219,025 | 6.83 |
| Other loans* | 9,325 | 151,365 | 6.16 |
| Total loans, net | 60,809 | 1,000,713 | 6.08 |
| Other | 238 | 15,808 | 1.51 |
| Taxable securities | | | |
| U. S. Government agencies** | 2,743 | 79,573 | 3.45 |
| Mortgage-backed securities** | 8,818 | 195,742 | 4.50 |
| Trust preferred securities | 444 | 12,677 | 3.50 |
| Total taxable securities | 12,005 | 287,992 | 4.17 |
| Tax-exempt securities | | | |
| Obligations of states and political subdivisions | 6,732 | 97,679 | 6.89 |
| Other equity securities | 415 | 8,785 | 4.72 |
| Total tax-exempt securities | 7,147 | 106,464 | 6.71 |
| Total securities | 19,152 | 394,456 | 4.86 |
| Total interest-earning assets | 80,199 | 1,410,977 | 5.68 |
| Cash and due from banks | | 42,323 | |
| Other assets, less allowance for loan losses | | 114,338 | |
| Total assets | | \$ 1,567,638 | |
| Interest-bearing liabilities | | | |
| Interest-bearing demand deposit accounts | 175 | \$ 17,351 | 1.01 |
| Savings and money market accounts | 4,378 | 509,053 | 0.86 |
| Time deposits | 12,829 | 549,036 | 2.34 |
| Total interest-bearing deposits | 17,382 | 1,075,440 | 1.62 |
| Total other interest-bearing liabilities | 4,414 | 137,008 | 3.22 |
| Total interest-bearing liabilities | 21,796 | 1,212,448 | 1.80 |
| Noninterest-bearing sources | | | |
| Noninterest-bearing deposits | | 176,908 | |
| Other liabilities | | 18,250 | |
| Shareholders' equity | | 160,032 | |
| Total liabilities and shareholders' equity | | \$ 1,567,638 | |
| Net interest income/net interest margin | \$ 58,403 | | 4.14 |

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.

* Includes mortgage loans held for sale.

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

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

| | 2003 | | |
|---------------------------------------------------|-------------------------------------------------|---------------------------------------------|--------------------------|
| | <i>Tax Equivalent Income or Expense</i> | <i>Average Balance Sheet Amount</i> | <i>Yields/ Rates</i> |
| Interest-earning assets | | | |
| Loans, net of unearned income | | | |
| Commercial | \$ 32,007 | \$ 510,482 | 6.27% |
| Consumer | 13,976 | 184,694 | 7.57 |
| Other loans* | 10,907 | 165,127 | 6.61 |
| Total loans, net | 56,890 | 860,303 | 6.61 |
| Other | 236 | 25,891 | 0.91 |
| Taxable securities | | | |
| U. S. Government securities** | | | |
| U. S. Government agencies** | 2,582 | 55,427 | 4.66 |
| Mortgage-backed securities | 6,738 | 190,157 | 3.54 |
| Trust preferred securities | 452 | 12,023 | 3.76 |
| Total taxable securities | 9,772 | 257,607 | 3.79 |
| Tax-exempt securities | | | |
| Obligations of states and political subdivisions | 7,147 | 93,513 | 7.64 |
| Other equity securities | 254 | 5,046 | 5.03 |
| Total tax-exempt securities | 7,401 | 98,559 | 7.51 |
| Total securities | 17,173 | 356,166 | 4.82 |
| Total interest-earning assets | 74,299 | 1,242,360 | 5.98 |
| Cash and due from banks | | 41,333 | |
| Other assets, less allowance for loan losses | | 86,950 | |
| Total assets | | \$ 1,370,643 | |
| Interest-bearing liabilities | | | |
| Interest-bearing demand deposit accounts | 80 | \$ 6,163 | 1.30 |
| Savings and money market accounts | 4,682 | 431,264 | 1.09 |
| Time deposits | 14,056 | 539,293 | 2.61 |
| Total interest-bearing deposits | 18,818 | 976,720 | 1.93 |
| Total other interest-bearing liabilities | 2,959 | 83,293 | 3.55 |
| Total interest-bearing liabilities | 21,777 | 1,060,013 | 2.05 |
| Noninterest-bearing sources | | | |
| Noninterest-bearing deposits | | 159,556 | |
| Other liabilities | | 15,482 | |
| Shareholders' equity | | 135,592 | |
| Total liabilities and shareholders' equity | | \$ 1,370,643 | |
| Net interest income/net interest margin | \$ 52,522 | | 4.23 |

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.

* Includes mortgage loans held for sale.

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

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

| | 2002 | | |
|---------------------------------------------------|-------------------------------------------------|---------------------------------------------|--------------------------|
| | <i>Tax Equivalent Income or Expense</i> | <i>Average Balance Sheet Amount</i> | <i>Yields/ Rates</i> |
| 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.

* Includes mortgage loans held for sale.

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

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Table 2 – Volume/Rate Analysis
(In Thousands)

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

| | 2004 Compared To 2003 | | |
|-------------------------------------------------------|-----------------------|-----------|--------------------|
| | Volume | Rate | Net ⁽¹⁾ |
| Interest income: | | | |
| Loans, net of unearned income ⁽²⁾ | \$ 9,196 | \$(5,150) | \$ 4,046 |
| Securities: | | | |
| U. S. Government and agency securities | 1,091 | (705) | 386 |
| Obligations of states and political subdivisions | 192 | (335) | (143) |
| Mortgage-backed securities | 198 | 1,621 | 1,819 |
| Trust preferred and Federal Home Loan Bank securities | 25 | (42) | (17) |
| Other equity securities | 160 | (40) | 120 |
| Other interest-earning assets | (91) | 94 | 3 |
| Total interest-earning assets | 10,771 | (4,557) | 6,214 |
| Interest expense: | | | |
| Interest-bearing demand deposit accounts | 145 | (50) | 95 |
| Savings and money market accounts | 845 | (1,149) | (304) |
| Time deposits | 254 | (1,481) | (1,227) |
| Other interest-bearing liabilities | 1,908 | (453) | 1,455 |
| Total interest-bearing liabilities | 3,152 | (3,133) | 19 |
| Change in net interest income | \$ 7,619 | \$(1,424) | \$ 6,195 |
| 2003 Compared To 2002 | | | |
| | Volume | Rate | Net ⁽¹⁾ |
| Interest income: | | | |
| Loans, net of unearned income ⁽²⁾ | \$ 1,599 | \$(6,612) | \$(5,013) |
| Securities: | | | |
| U. S. Government and agency securities | (613) | (301) | (914) |
| Obligations of states and political subdivisions | 268 | (183) | 85 |
| Mortgage-backed securities | 1,835 | (3,515) | (1,680) |
| Trust preferred and Federal Home Loan Bank securities | 117 | (93) | 24 |
| Other equity securities | 42 | (53) | (11) |
| Other interest-earnings assets | 99 | (198) | (99) |
| Total interest-earning assets | 3,347 | (10,955) | (7,608) |
| Interest expense: | | | |
| Interest-bearing demand deposit accounts | (1,616) | (26) | (1,642) |
| Savings and money market accounts | 2,119 | (1,794) | 325 |
| Time deposits | (654) | (3,245) | (3,899) |
| Other interest-bearing liabilities | 993 | (525) | 468 |
| Total interest-bearing liabilities | 842 | (5,590) | (4,748) |
| Change in net interest income | \$ 2,505 | \$(5,365) | \$(2,860) |

⁽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.

⁽²⁾ Includes mortgage loans held for sale.

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Table 3 - Investment Portfolio
(In Thousands)

The following table sets forth the maturity distribution and weighted average yield based on the amortized cost of our securities portfolio as of December 31, 2004:

| | <u>Within One Year</u> | | <u>After One But Within Five Years</u> | | <u>After Five But Within Ten Years</u> | | <u>After Ten Years</u> | |
|-------------------------------------------------|------------------------|-------|--------------------------------------------|-------|--------------------------------------------|-------|------------------------|-------|
| Available for sale: | | | | | | | | |
| U. S. Treasury and agency securities | \$ 5,992 | 5.36% | \$ 27,922 | 3.54% | \$ 41,225 | 3.91% | \$ — | — |
| Obligations of state and political subdivisions | 4,277 | 6.21% | 32,145 | 6.95% | 46,428 | 6.28% | 18,549 | 6.02% |
| Mortgage-backed securities | 15,478 | 4.83% | 135,009 | 4.65% | 22,590 | 4.92% | — | — |
| Corporate bonds | 503 | 2.92% | — | — | — | — | — | — |
| Trust preferred securities | — | — | 3,027 | 7.93% | — | — | — | — |
| Other equity securities | — | — | — | — | 2,960 | 7.74% | 14,182 | 3.77% |
| | <u> </u> | | <u> </u> | | <u> </u> | | <u> </u> | |
| Total | \$26,250 | | \$198,103 | | \$113,203 | | \$32,731 | |
| | <u> </u> | | <u> </u> | | <u> </u> | | <u> </u> | |

The maturity of mortgage-backed 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, 2004, which, based on remaining scheduled repayments of principal, are due in the periods indicated.

| | <u>Loan Maturities</u> | | | |
|----------------------------------------|----------------------------|------------------------------------------------|---------------------------------|-------------------|
| | <u>Within One Year</u> | <u>After One But Within Five Years</u> | <u>After Five Years</u> | <u>Total</u> |
| Commercial, financial and agricultural | \$124,202 | \$ 46,557 | \$ 4,812 | \$ 175,571 |
| Lease financing | 4,761 | 5,604 | 444 | 10,809 |
| Real estate-construction | 90,467 | 4,513 | 1,424 | 96,404 |
| Real estate-1-4 family mortgage | 169,793 | 174,344 | 31,561 | 375,698 |
| Real estate-commercial mortgage | 231,505 | 121,552 | 41,991 | 395,048 |
| Installment loans to individuals | 39,136 | 47,296 | 1,518 | 87,950 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$659,864 | \$399,866 | \$81,750 | \$1,141,480 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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The following table sets forth the fixed and variable rate loans maturing after one year for all loans as of December 31, 2004:

| | <i>Interest Sensitivity</i> | |
|--------------------------------|-----------------------------|----------------------|
| | <i>Fixed Rate</i> | <i>Variable Rate</i> |
| Due after 1 but within 5 years | \$379,535 | \$20,244 |
| Due after 5 years | 81,664 | 173 |
| | <u>\$461,199</u> | <u>\$20,417</u> |

Table 5 – Deposits

(In Thousands)

The following table shows the maturity of time certificates of deposit and other time deposits over \$100 at December 31, 2004:

| | |
|--------------------|------------------|
| Less than 3 Months | \$ 55,744 |
| 3 Months-6 Months | 45,315 |
| 6 Months-12 Months | 27,746 |
| Over 12 Months | 68,313 |
| | <u>\$197,118</u> |

ITEM 2. PROPERTIES

(In Thousands)

The main office of the Company is located at 209 Troy Street, Tupelo, Mississippi. Various departments 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, Renasant Bank operates forty-two branches and two financial services offices throughout north and north central Mississippi and eight branches throughout north and north central Alabama. In Mississippi, Renasant Bank has seven branches in Tupelo, three branches in Booneville, two branches each in Amory, Corinth, Hernando, Pontotoc, and West Point, and one branch each in Aberdeen, Batesville, Belden, Calhoun City, Coffeerville, Grenada, Guntown, Horn Lake, Iuka, Louisville, New Albany, Okolona, Olive Branch, Oxford, Saltillo, Sardis, Shannon, Smithville, Southaven, Verona, Water Valley, and Winona. Renasant Bank operates two financial services offices, one office each in Tupelo and Southaven.

In Alabama, Renasant Bank has three branches in Decatur, two branches in Birmingham, and one branch each in Huntsville, Madison, and Trussville. Renasant Bank's Alabama branches were acquired in connection with the Company's acquisition of Heritage that was consummated on January 1, 2005.

Renasant Bank of Tennessee operates two branches in Tennessee, one branch each in Germantown and Cordova. In addition, Renasant Bank of Tennessee operates a loan production office in Nashville.

Renasant Insurance has one office each in Corinth, Louisville, and Tupelo, Mississippi.

Renasant Bank owns the Company's main office located at 209 Troy Street, Tupelo, Mississippi as well as thirty-nine of the branch office sites. Renasant Bank leases two locations for use in conducting banking activities as well as various storage facilities. In Alabama, Renasant Bank owns two of the branch office sites in Decatur. The remainder of the branch office sites and three locations used in conducting banking activities as well as storage are leased. Renasant Insurance leases two locations for conducting its business. Renasant Bank of Tennessee owns two of the branch office sites. The aggregate annual rental for all leased premises during the year ending December 31, 2004 was \$256.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company, the Banks, Renasant Insurance or any other subsidiaries are 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 2004.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Dividends**

The Company's common stock trades on the American Stock Exchange under the ticker symbol PHC. On February 22, 2005, the Company had approximately 3,400 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, 2004 and 2003, and (ii) the amount of cash dividends declared during each quarterly period during such fiscal years:

| | | Prices | |
|-------------|------------------------|---------|---------|
| | Dividends Per Share | Low | High |
| 2004 | | | |
| 1st Quarter | \$.200 | \$31.45 | \$33.99 |
| 2nd Quarter | .200 | 28.80 | 36.55 |
| 3rd Quarter | .210 | 29.69 | 34.93 |
| 4th Quarter | .210 | 32.49 | 35.99 |
| 2003 | | | |
| 1st Quarter | \$.180 | \$25.83 | \$29.33 |
| 2nd Quarter | .187 | 26.71 | 30.63 |
| 3rd Quarter | .187 | 29.27 | 32.70 |
| 4th Quarter | .200 | 31.50 | 34.24 |

The price information in the table above reflects a three-for-two stock split effected in the form of a share dividend on December 1, 2003. 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 Banks. Accordingly, the declaration and payment of cash dividends by the Company depends upon the Banks' earnings, financial condition, general economic conditions, compliance with regulatory requirements, and other factors. Restrictions on the Banks' ability to transfer funds to the Company in the form of cash dividends exist under federal and state law and regulations. See Note K, "Restrictions on Cash, Bank Dividends, Loans, or Advances," to the Consolidated Financial Statements of the Company for a discussion of these restrictions.

Equity Compensation Plan Information

The following table includes certain additional information about the Company's equity compensation plans as of December 31, 2004.

Equity Compensation Plan Information

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders ⁽¹⁾ | 231,750 | \$ 28.20 | 143,250 |
| Equity compensation plans not approved by security holders ⁽²⁾ | 37,876 | 12.54 ⁽³⁾ | 27,117 |
| Total | 269,626 | \$ 26.95 | 170,367 |

⁽¹⁾ The shareholder approved plan is the 2001 Long-Term Incentive Plan. A total of 375,000 shares of common stock were authorized for issuance under the plan, and options to acquire 231,750 shares were outstanding as of December 31, 2004.

⁽²⁾ As of December 31, 2004, there were two equity compensation plans that were not approved by our shareholders:

- In connection with its acquisition of Renasant Bancshares, Inc., the Company assumed the Renasant Bancshares, Inc. Stock Option Plan, under which options to purchase an aggregate of 19,993 shares of the Company's common stock remained outstanding; no additional options or other forms of equity incentives will be granted or awarded under the plan.
- One of the Company's deferred compensation plans provides that deferred amounts are invested in units representing shares of our common stock. At the end of each participant's deferral period, the units are distributed in the form of common stock. Units are allocated to each participant's account based on quarterly average market price. An aggregate of 45,000 shares of common stock is authorized for issuance under the plan. Units representing an aggregate of 17,883 shares of our common stock have been credited to participant accounts.

⁽³⁾ The weighted average exercise price does not take into account awards under the Company's deferred compensation plans.

Issuer Purchases of Equity Securities

The Company did not purchase its own securities during the three month period ended December 31, 2004.

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

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Year ended December 31 | | | | | |
| Interest income | \$ 77,024 | \$ 70,810 | \$ 78,418 | \$ 87,766 | \$ 89,434 |
| Interest expense | 21,796 | 21,777 | 26,525 | 40,922 | 44,132 |
| Provision for loan losses | 1,547 | 2,713 | 4,350 | 4,790 | 6,373 |
| Noninterest income | 32,287 | 31,893 | 27,973 | 24,389 | 18,529 |
| Noninterest expense | 60,709 | 53,193 | 51,027 | 46,747 | 42,474 |
| Income before income taxes | 25,259 | 25,020 | 24,489 | 19,696 | 14,984 |
| Income taxes | 6,816 | 6,839 | 6,819 | 5,109 | 3,800 |
| Income before cumulative effect of accounting change | 18,443 | 18,181 | 17,670 | 14,587 | 11,184 |
| Cumulative effect of accounting change | — | — | (1,300) | — | — |
| Net income | \$ 18,443 | \$ 18,181 | \$ 16,370 | \$ 14,587 | \$ 11,184 |
| Per Common Share – Basic | | | | | |
| Income before cumulative effect of accounting change | \$ 2.15 | \$ 2.20 | \$ 2.10 | \$ 1.66 | \$ 1.22 |
| Cumulative effect of accounting Change | — | — | (0.15) | — | — |
| Net income | \$ 2.15 | \$ 2.20 | \$ 1.95 | \$ 1.66 | \$ 1.22 |
| Per Common Share – Diluted | | | | | |
| Income before cumulative effect of accounting change | \$ 2.14 | \$ 2.19 | \$ 2.09 | \$ 1.66 | \$ 1.22 |
| Cumulative effect of accounting change | — | — | (0.15) | — | — |
| Net income | \$ 2.14 | \$ 2.19 | \$ 1.94 | \$ 1.66 | \$ 1.22 |
| Book value at December 31 | \$ 19.79 | \$ 16.79 | \$ 15.88 | \$ 14.44 | \$ 13.39 |
| Closing price on the AMEX at December 31 | 33.10 | 33.00 | 27.17 | 24.67 | 12.00 |
| Cash dividends declared and paid | .82 | .75 | .69 | .64 | .59 |
| At December 31 | | | | | |
| Loans, net of unearned income | \$1,141,480 | \$ 862,652 | \$ 859,684 | \$ 818,036 | \$ 812,701 |
| Securities | 371,581 | 414,270 | 344,781 | 277,293 | 278,574 |
| Assets | 1,707,545 | 1,415,214 | 1,344,512 | 1,254,727 | 1,211,940 |
| Deposits | 1,318,677 | 1,133,931 | 1,099,048 | 1,063,055 | 1,046,605 |
| Borrowings | 191,547 | 125,572 | 91,806 | 47,326 | 24,549 |
| Shareholders' equity | 179,042 | 137,625 | 132,778 | 123,582 | 121,661 |

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

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------------------------------------------------|----------------|-------------|-------------|-------------|-------------|
| Selected Ratios | | | | | |
| Return on average: | | | | | |
| Total assets | 1.18% | 1.33% | 1.25% | 1.18% | .93% |
| Shareholders' equity | 11.52% | 13.41% | 12.85% | 11.70% | 9.49% |
| Before cumulative effect of accounting change, return on average: | | | | | |
| Total assets | 1.18% | 1.33% | 1.35% | 1.18% | .93% |
| Shareholders' equity | 11.52% | 13.41% | 13.87% | 11.70% | 9.49% |
| Average shareholders' equity to average assets | 10.21% | 9.89% | 9.75% | 10.07% | 9.85% |
| At December 31 | | | | | |
| Shareholders' equity to assets | 10.49% | 9.72% | 9.88% | 9.85% | 10.04% |
| Allowance for loan losses to total loans, net of unearned income | 1.26% | 1.53% | 1.42% | 1.39% | 1.30% |
| Allowance for loan losses to nonperforming loans | 166.30% | 181.09% | 338.22% | 178.63% | 147.89% |
| Nonperforming loans to total loans, net of unearned income | .76% | .85% | .42% | .78% | .88% |
| Dividend payout | 38.31% | 34.25% | 35.59% | 38.52% | 47.76% |

Per share information listed above has been restated to reflect the three-for-two stock split effected in the form of a share dividend on December 1, 2003, and any other stock splits or stock dividends declared during the five-year period covered by the above table. Please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the financial data discussed above.

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

On the national front, the economy began picking up steam during 2004 as economic activity increased. Employment saw appreciable gains as the unemployment rate dropped from 5.7% to 5.4% for year-end 2004 from 2003. With federal monetary policy accommodative, coupled with both an increase in hourly wages and in the non-farm work week, household spending remained resilient. Business investment in equipment and inventories improved despite higher oil prices. The consumer price inflation index moved higher, ending the year at 3.3%, up from 1.9% at the end of 2003 driven largely by energy prices. While up from 2003, the core consumer price index was 2.2%.

As 2004 began, hiring by businesses nationally did not increase appreciably. The unemployment rate remained steady through the first quarter. Despite a slower beginning, it became more evident during the second quarter that the country's economic expansion was solidifying. On the business front, capacity utilization began increasing in the second quarter. In addition, both housing permits and new home sales were up. The Federal Open Market Committee (the "FOMC"), which sets federal monetary policy, appears to have become more confident that the economy was gaining strength and began to recognize that its accommodative stance for monetary policy could not be maintained.

During the first quarter of 2004, the federal funds interest rate remained at a low of 1.00% with a 4.00% prime rate. The FOMC, however, changed its bias position from accommodative to one of balance. The language in its policy statement was modified to give the FOMC greater flexibility to tighten monetary policy should circumstances warrant. At its meeting on June 30, the federal funds rate was increased by 25 basis points as the reported economic data pointed to a firmly established expansion. The FOMC indicated that their policy would need to move toward a more neutral stance, but not at a rapid rate.

During 2004, the FOMC raised the federal funds rate five times; each increase was 25 basis points. By the end of the year, the federal funds rate was 2.25% and was in line with the FOMC's assessment of balanced risk in relation to sustainable growth and price stability. The prime rate was 5.25%. During the fourth quarter, both consumer and investment spending remained solid. In addition, employment gains in the quarter were consistent with a continued improvement in the labor market. Spending for automobiles was robust. Disposable personal income rose almost 4.0% with a 3.8% increase for real GDP.

Locally, in 2004 we operated in northeast Mississippi and southwest Tennessee. The most vibrant markets for the Company in 2004 were located in Lee and Desoto counties in Mississippi and Shelby county in Tennessee. Both Lee and Desoto counties again ranked in the top 5 counties in the state for gross retail sales. During 2004, retail sales increased in Desoto County by 10.8%, totaling almost \$1 billion. While unemployment was mixed within our market area, a number of the counties experienced an increase in unemployment.

While we experienced loan growth in most markets, the most notable increases during 2004 originated in Lee and Desoto counties. Our loan growth, excluding the loans acquired in connection with the acquisition of Renasant Bancshares, exceeded 11.7% with a 42.8% growth in Desoto County. Loans in Lee County grew 12.3% during 2004.

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 engaged to assist us in the estimation process, management evaluates the results and challenges assumptions used and other factors which could impact the estimation. The following discussion presents some of the more significant estimates used in preparing our financial statements.

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The critical accounting policy most important to the presentation of our financial statements relates to the allowance for loan loss and the related provision for loan losses. 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 Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard (“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 Statement 114, “Accounting by Creditors for Impairment of a Loan” (“Statement 114”). The balance of these loans determined to be impaired under Statement 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, the unemployment rate in our market, loan segmentation, and historical losses that are inherent in the loan portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. If the allowance is deemed inadequate, management provides additional reserves through the provision for loan losses.

Prior to 2002, the allowance for loan losses was allocated based on the business purpose of the loan. In 2002, management changed methods, basing the allocation on the underlying collateral securing the loan. This change was made to assist management in better evaluating risk within the entire loan portfolio due to changes in economic conditions, as well as to better evaluate collateral concentration. This allocation method also provides management with a better tool to risk grade loans, since historical losses can now be compared by loan category (collateral based). The only impact from changing to a collateral-based method resulted in a number of loans that had previously been classified as commercial, financial, and agricultural loans prior to 2002 to subsequently being classified as either real estate 1-4 family mortgage, if the collateral for the loans was secured by debtors’ residences, or real estate-commercial, if the underlying collateral was commercial real estate. The change in allocation methods did not impact the allowance required.

For a discussion of our loan policies and procedures, please refer to the disclosures in this Item under the heading “Risk Management—Credit Risk and Allowance for Loan Losses.”

Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. Our goodwill relates to value inherent in our banking and insurance operations. The value of this goodwill is dependent upon our ability to provide quality, cost effective services in the face of competition. As such, the value of our goodwill is supported ultimately by revenue which is driven by the volume of business transacted and the market share acquired. A decline in earnings as a result of a lack of growth or our inability to deliver cost effective services over sustained periods can lead to impairment of goodwill which could result in additional expense and adversely impact earnings in future periods.

Our independent actuary firm 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 2004 valuation was 5.99%, down from 6.25% in 2003. Actual plan assets as of December 31, 2004 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 believe we employ appropriate methods for these calculations and that the results of such calculations 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.

We monitor the status of proposed and newly issued accounting standards to evaluate the impact on our financial condition and results of operations. The impact of newly issued accounting standards is discussed in further detail in “Note A – Significant Accounting Policies” in the Notes to the Consolidated Financial Statements. The impact of adopting Statement 141 in 2002 is discussed in this Item under the heading “Results of Operations – Net Income.”

Highlights and Performance Overview for 2004

In 2004, we expanded our footprint into key growth markets. On July 1, 2004, we completed our acquisition of Renasant Bancshares, Inc. (“Renasant Bancshares”) of Germantown, Tennessee, which provides us with access to the rapidly growing markets of east Memphis, Germantown and Cordova, Tennessee.

On July 15, 2004, we announced the signing of a definitive merger agreement with Heritage Financial Holding Corporation (“Heritage”) of Decatur, Alabama. The acquisition of Heritage, which was completed on January 1, 2005, provides us with access to the key markets of Birmingham, Huntsville and Decatur, Alabama. In addition, we believe the acquisitions of Renasant Bancshares and Heritage will allow us to expand our services into other key markets throughout the states of Tennessee and Alabama.

During 2004, facing challenges such as the Federal Reserve interest rate movements, recent developments at Fannie Mae (“FNMA”) and Freddie Mac (“FHLMC”), reduction in mortgage loan originations from previous years’ historic levels and compliance with Section 404 of the Sarbanes-Oxley Act of 2002 required us to be assertive and innovative in our efforts to stay on track with our financial performance goals.

In meeting the challenges, net income improved to \$18,443 for 2004 as compared to \$18,181 in 2003. The improvement in net income was influenced by a number of factors:

- Net interest income increased 12.63% to \$55,228 for 2004 as compared to \$49,033 for 2003. Interest income grew 8.78% to \$77,024 for 2004 from \$70,810 for 2003. Interest expense remained flat for 2004 at \$21,796 compared to \$21,777 for 2003 despite average interest-bearing liabilities growing 14.38%. While we saw a decline in the net interest margin in 2004 as compared to 2003, our net interest margin increased from the third quarter to the fourth quarter in 2004.
- The provision for loan losses decreased from \$2,713 in 2003 to \$1,547 in 2004, or 42.98%, as a result of continued improvement in the credit quality of the loan portfolio.
- Noninterest income increased to \$32,287 for 2004, or \$394, from \$31,893 for 2003.
- Loans, net of unearned income, totaled \$1,141,480 at December 31, 2004, an increase of \$278,828, or 32.32%, from December 31, 2003.

Other initiatives completed during 2004 include the following:

- Completed a de novo branch in Horn Lake, Mississippi, which is located in Desoto County, a suburb of Memphis, Tennessee.
- Opened a branch in Oxford, Mississippi. We also purchased property and began construction on a new branch in Oxford, which is expected to open during the 3rd quarter of 2005.
- Began construction of new branches in Collierville and East Memphis, Tennessee. Both locations are expected to open during the 3rd quarter of 2005. We opened a new loan production office in Nashville, Tennessee in February 2005.
- Placed ATM’s in the student unions at the University of Mississippi and Mississippi State University.
- Introduced our Business High Performance Checking (“BHPC”) program.
- Recognized \$1,000 gain on the sale of our merchant card servicing business to Nova Information Systems, Inc.
- Purchased approximately 45,000 shares of the Company’s stock through our stock repurchase plan at an average price of \$31.67.
- Increased quarterly cash dividends for the eighteenth consecutive year to \$.21 per share.

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A historical look at key performance indicators is presented below.

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|--------------------|---------|---------|---------|---------|----------|
| Fully Dilutive EPS | \$ 2.14 | \$ 2.19 | \$ 2.09 | \$ 1.66 | \$ 1.22 |
| EPS Growth | (2.28)% | 4.78% | 25.90% | 36.07% | (23.27)% |
| ROA | 1.18% | 1.33% | 1.35% | 1.18% | .93% |
| ROE | 11.52% | 13.41% | 13.87% | 11.70% | 9.49% |

* Amounts above for 2002 are based on income before Cumulative Effect of Accounting Change. Diluted EPS, ROA & ROE were \$1.94, 1.25%, and 12.85%, respectively in 2002. EPS growth reflects changes from the immediately preceding year.

A number of factors contributed to the \$.05 decline in EPS during 2004. The most significant impact resulted from the dilutive effect of the Renasant Bancshares acquisition of approximately \$.09. In addition, an impairment charge on the FNMA and FHLMC securities reduced EPS by \$.08; this decrease was largely offset by the gain of \$.07 on the sale of the merchant business, for a net effect of an approximately \$.01 decrease in EPS from these two factors. The remainder of changes in EPS during 2004 are primarily attributable to growth in net interest income. The 2003 EPS growth was the result of decreases in net interest margin and loan loss provision, significant growth in noninterest income, and moderate growth in noninterest expense. The growth in EPS in 2001 and 2002 was due to improved net interest margin, lower loan loss provision expense, and significant improvements in noninterest income. The decline in EPS growth for 2000 was due largely to the recognition of a \$3,717 gain on the sale of the credit card portfolio in 1999. In addition, in 2000, we experienced a decrease in net interest income as well as credit problems that resulted in a higher-than-normal loan loss provision.

Recent Developments

On January 1, 2005, the Company completed its acquisition of Heritage, a bank holding company headquartered in Decatur, Alabama. The Company issued approximately 1.4 million shares of its common stock and paid \$23.1 million in cash for 100% of the voting equity interests in Heritage. Heritage is the parent of Heritage Bank and operates eight banking offices in Alabama. The acquisition allows the Company to expand its geographical footprint into the key markets of Birmingham, Decatur and Huntsville, Alabama.

Selected data for Heritage at and for the year ended December 31, 2004 is presented below:

| | |
|----------|-----------|
| Assets | \$540,296 |
| Loans | 395,482 |
| Deposits | 380,998 |
| Equity | 28,841 |
| Net Loss | (1,043) |

Please refer to Note T, "Mergers and Acquisitions," in the Notes to Consolidated Financial Statements of the Company in Item 8 of this Annual Report for additional historical financial information with respect to Heritage.

Results of Operations

Net Income

Net income for the year ended December 31, 2004 was \$18,443, which represents an increase of \$262, or 1.44%, from net income of \$18,181 for the year ended December 31, 2003. Basic and diluted earnings per share decreased \$.05 to \$2.15 and \$2.14, respectively, for the year ended December 31, 2004 as compared to the prior year.

Net income for the year ended December 31, 2004 included an after-tax gain of \$617 from the sale of our merchant card business during the second quarter of 2004. This transaction increased basic and diluted earnings per share by \$.07. Also included in net income for 2004 is a \$675 after-tax other-than-temporary impairment charge on certain FNMA and FHLMC preferred stock in our securities portfolio. This non-cash charge decreased basic and diluted earnings per share by \$.08. The remainder of the change in net income during 2004 as compared to 2003 is primarily attributable to growth in net interest income.

Net income for the years ended December 31, 2003 and 2002 was \$18,181 and \$16,370, respectively. The increase of \$1,811, or 11.06%, was attributable to several factors. Noninterest income grew during 2003 by \$3,920, or 14.01%, to \$31,893 as compared to 2002 due primarily to gains on sale of mortgage loans as we experienced unprecedented mortgage loan volumes. In 2002, we recorded a transitional impairment of \$1,300 on intangible assets recorded in connection with previously acquired goodwill. This impairment was recorded as a cumulative effect of a change in accounting principle under FASB Statement No. 142, "Goodwill and Intangible Assets." Since the insurance subsidiaries were acquired through tax-free exchanges, there was no tax benefit to offset the impairment. As a direct result of improved credit quality, we recorded a loan loss provision during 2003 of \$2,713, a 37.63% decrease from 2002.

Net Interest Income

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 63.11% of total revenue in 2004. The primary concerns in managing net interest income are the mix and the repricing of rate-sensitive assets and liabilities. In June 2004, the Federal Reserve Board began a series of five 25 basis point increases in its federal funds rate.

While there are a number of options available for improving net interest income, we focused on increasing the volume of our loans, particularly variable rate loans, and keeping our deposit costs low. Income from our loan portfolio, on a tax equivalent basis, grew 6.89% during 2004 as average loans grew 16.32%. At December 31, 2004, variable rate loans represented 46% of our loan portfolio compared to 36% of the loan portfolio at December 31, 2003. By focusing on increasing our variable rate loans, we have better positioned ourselves to take advantage of interest rates as interest rates continue to rise. In addition, our net interest income increased due to our ability to keep our deposit costs low. The cost of interest bearing deposits during 2004 was 1.62%, a decrease of 31 basis points from the rate paid in 2003.

Net interest income on a tax equivalent basis increased \$5,881, or 11.20%, from \$52,522 in 2003 to \$58,403 in 2004. Of the increase in net interest income, the increase due to the favorable growth in the volume of net earning assets of \$7,129 was offset by the changes in interest rates of \$1,248.

Interest income grew 8.78% to \$77,024 for 2004 from \$70,810 from 2003. The growth in interest income was driven by volume, as the average balance in interest earning assets increased \$168,617 during 2004, while the tax equivalent yield on earning assets decreased 30 basis points to 5.68%.

Interest expense remained flat for 2004 at \$21,796 as compared to \$21,777 for 2003 despite average interest-bearing liabilities growing 14.38%. The cost of interest-bearing liabilities decreased from 2.05% in 2003 to 1.80% in 2004, or 25 basis points.

During 2002, the asset-liability management committee was assertive in making pricing decisions that enhanced net interest income. Since the balance sheet was liability sensitive at that time, the falling interest rate environment was conducive to increasing net interest income. In contrast, during 2003 we began repricing a significant portion of our assets at lower rates. Loan growth on a period-to-period basis was relatively flat due to the sluggish economy. As a result of low interest rates, approximately \$28,000 of in-house mortgages sought permanent financing in the secondary market, moving from short-term loans with Renasant Bank to traditional (long-term) mortgage loans that

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are sold upon closing. This shift, combined with the continual decline in our sales finance loan program that was discontinued in 2000 and the increase in the volume of the prepayments of our mortgage-backed securities, had a significant impact on net interest income in 2003. With the 25 basis points drop in interest rates in June of 2003, we began experiencing a significant acceleration in the volume of prepayments of our mortgage-backed securities in the third quarter. During the fourth quarter of 2003, those securities were back to more normal prepayment speeds, reducing the premium amortization. The increase in rates in the fourth quarter of 2003 resulted in much lower mortgage loan volume and normal prepayment volume on mortgage-backed securities.

Net interest income on a tax equivalent basis decreased \$2,499, or 4.54%, from \$55,021 in 2002 to \$52,522 in 2003. Of the tax equivalent decrease, an increase of \$2,086 due to the favorable growth in net earning assets was more than offset by a decrease of \$4,585 due to changes in interest rates. Interest income, on a tax equivalent basis, decreased \$7,247 to \$74,299 during 2003 as compared to 2002. The tax equivalent yield on earning assets decreased from 6.90% in 2002 to 5.98% in 2003, or 92 basis points. The cost of interest-bearing liabilities dropped from 2.63% in 2002 to 2.05% in 2003, or 58 basis points.

Average Earning Assets to Total Average Assets

| 2004 | 2003 | 2002 |
|---------------|--------|--------|
| 90.01% | 90.64% | 90.41% |

Average earning assets as a percentage of total average assets are shown above for the years December 31, 2004, 2003 and 2002. The decrease in 2004 as compared to 2003 is attributable to \$45,569 in intangible assets acquired in connection with our acquisition of Renasant Bancshares. The improvement shown for 2003, although slight, was due to enhancements made in cash management. The tax equivalent yields on earning assets were 5.68%, 5.98%, and 6.90%, for 2004, 2003, and 2002, respectively.

Net Interest Margin – Tax Equivalent

| 2004 | 2003 | 2002 |
|--------------|-------|-------|
| 4.14% | 4.23% | 4.66% |

Net interest margin, the tax equivalent net yield on earning assets, decreased to 4.14% during 2004 from 4.23% in the prior year. The table below shows the impact that the earning assets and interest-bearing liabilities had on the change in net interest margin for 2004. As shown, the increase in volume of earning assets resulted in an increase of .044% in net interest margin. The increase was more than offset by the effect of the decline of .341% in rates on earning assets. The net effect of volume and rate on earning assets was a .297% decrease in net interest margin. This was offset somewhat by the increase in net interest margin of .208% due to the effect of changes in rates and volumes of interest-bearing liabilities. The net result was a decrease in net interest margin of .089%. The following table provides certain information regarding effect on net interest margin due to changes in volumes and rates of interest-earning assets and interest-bearing liabilities:

| Description | Volume | Rate | Net |
|-------------------------------------------|---------------|-----------------|-----------------|
| Loans | 0.082% | (0.352)% | (0.270)% |
| Interest-bearing bank balances | (0.008)% | 0.006% | (0.002)% |
| Investment securities | (0.030)% | 0.005% | (0.025)% |
| Total earning assets | 0.044% | (0.341)% | (0.297)% |
| Deposits | (0.099)% | (0.184)% | (0.283)% |
| Other interest-bearing liabilities | 0.100% | (0.025)% | 0.075% |
| Total interest-bearing liabilities | 0.001% | (0.209)% | (0.208)% |
| Net interest margin | 0.043% | (0.132)% | (0.089)% |

Net interest margin, the tax equivalent net yield on earning assets, decreased 43 basis points during 2003 from the comparable period in 2002. The repricing of our earning assets at lower rates coupled with accelerated amortization of premiums on mortgage-backed securities resulted in the decline of net interest margin.

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Loans and Loan Interest Income

Loans are the Company's most significant earning asset, comprising 66.85%, 60.96%, and 63.94% of total assets at December 31, 2004, 2003, and 2002, respectively. The table below sets forth loans outstanding, according to loan type, net of unearned income, at December 31:

Loan Portfolio

(In Thousands)

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|-------------------------------------------|--------------------|------------------|------------------|------------------|------------------|
| Commercial, financial, agricultural | \$ 175,571 | \$ 140,149 | \$ 139,457 | \$ 138,420 | \$ 144,130 |
| Lease financing | 10,809 | 12,148 | 15,338 | 16,483 | 18,531 |
| Real estate-construction | 96,404 | 50,848 | 37,141 | 30,564 | 25,706 |
| Real estate-1-4 family mortgages | 375,698 | 293,097 | 293,022 | 289,395 | 290,482 |
| Real estate-commercial mortgages | 395,048 | 280,097 | 277,824 | 234,177 | 207,819 |
| Installment loans to individuals | 87,950 | 86,313 | 96,902 | 108,997 | 126,033 |
| Total loans net of unearned income | \$1,141,480 | \$862,652 | \$859,684 | \$818,036 | \$812,701 |

As the table above shows, at December 31, 2004 loans increased \$278,828, or 32.32%, from December 31, 2003. We experienced strong loan growth in our existing markets as total loans, excluding loans acquired in connection with our acquisition of Renasant Bancshares, grew \$100,786, or 11.68%. The acquisition of Renasant Bancshares increased total loans by approximately \$178,042.

The year 2004 was unusual in terms of the lending environment. We began the year with minimal loan growth, as loans at March 31, 2004 grew 2.30% as compared to December 31, 2003. During the last three quarters of the year, we experienced increased loan growth as loans, excluding loans acquired in connection with our acquisition of Renasant Bancshares, increased \$80,954, or 9.17%. We did not experience the decrease in mortgage loans due to homeowner refinancing in 2004 as we did in 2003. The growth generated during 2004 is attributable to the steps management took during 2003 and fewer customers in 2004 refinancing loans into fixed mortgage loan products.

During 2003, management committed to the task of growing loans through our expansion into more attractive markets, as well as, through the strategic hires of lending personnel located in those higher growth markets. Total loans at December 31, 2003 only grew \$2,968, or .35%, from December 31, 2002. In 2003, we experienced a significant decrease in average mortgage loans of \$18,280 as customers refinanced into fixed mortgage loan products given the historic low rates available during this time. This decrease was more than offset by an increase in average commercial loans of \$30,967 and an increase in lines of credit of \$13,012, both with lower yields than the mortgage loans.

Average Loan to Deposit Ratio

| 2004 | 2003 | 2002 |
|--------|--------|--------|
| 79.77% | 74.99% | 75.54% |

Average yields on loans decreased from 7.39% in 2002 to 6.61% in 2003 and then to 6.08% in 2004. The most significant changes occurred in commercial loans, as the average yield dropped from 7.05% in 2002 to 6.27% in 2003, then to 5.79% in 2004. Consumer loan yields declined from 8.24% in 2002 to 7.57% in 2003, then further to 6.83% in 2004. The repricing of loans in the declining interest rate environment during the periods resulted in the decline on loan yields.

The tax equivalent loan interest income was \$60,809, \$56,890, and \$61,865 for the years ended December 31, 2004, 2003, and 2002, respectively. Income from loans, on a tax equivalent basis, increased \$3,919 during 2004, as the average balance of loans increased \$140,410.

Mortgage loans held for sale were \$2,714 and \$1,643 at December 31, 2004 and 2003, respectively. The demand for traditional mortgages, particularly refinancing of existing mortgages into fixed-rate mortgage products, was strong until the third quarter of 2003. During 2003, we closed approximately \$121,844 in mortgage loans, a record for Renasant Bank, up 58.24% over the volume closed for 2002. As rates began to rise and the demand for refinancing of existing mortgages slowed, we experienced a decline in mortgage loan volume. As such, originations of mortgage loans to be sold totaled \$45,331 for 2004. Mortgage loans to be sold are locked in at the

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contractual rate upon closing, thereby eliminating any interest rate risk for the Company. Gains and losses are realized at the time consideration is received and all other criteria for sales treatment have been met. These loans are typically sold within thirty days after the loan is funded. Although some interest income is derived from mortgage loans held for sale, the main source of income is gains from the sale of the mortgage loans in the secondary market.

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 | 2004 | 2003 | 2002 |
|--------------------------------------------------|-------------|-------------|-------------|
| U. S. Government agencies | 20% | 22% | 15% |
| Mortgage-backed securities | 46 | 50 | 52 |
| Obligations of states and political subdivisions | 28 | 23 | 28 |
| FHLB and other preferred stock | 6 | 5 | 5 |
| | 100% | 100% | 100% |

In 2004, securities income, on a tax equivalent basis, increased \$1,979 to \$19,152 from securities income on a tax equivalent basis in 2003. The average balance in the investment portfolio was \$394,456, up \$38,290, or 10.75%, over 2003. The tax equivalent yield on the portfolio was 4.86%, up 4 basis points from 2003.

The balance of our securities portfolio at December 31, 2004 declined \$42,689 to \$371,581 compared to \$414,270 at December 31, 2003. During 2004, we experienced greater demand for loans and modest growth in deposits. As the investment portfolio declined, primarily due to routine maturities and calls of securities, the funds received from the routine maturities and calls of securities were used to fund the growth in the loan portfolio rather than being reinvested in the securities portfolio. This caused the decrease in the balance of our securities portfolio. Maturities and calls of securities during 2004 totaled \$112,068.

During 2004, we sold \$66,526 in securities of which approximately \$33,850 of these securities were sold in June to meet liquidity requirements related to the acquisition of Renasant Bancshares. These securities included obligations of U.S. Government agencies and corporations, mortgage-backed securities, obligations of states and political subdivisions and trust preferred securities. At December 31, 2003, those securities had net unrealized gains of \$835, which included two securities with unrealized losses totaling \$23. The two securities, a mortgage-backed security and a floating rate trust preferred, had sales prices of \$4,131 and \$2,005, respectively, resulting in a realized loss at the time of sale of \$115 and a realized gain of \$12, respectively.

During 2004, we purchased \$113,217 in securities. The purchases were primarily mortgage-backed securities and collateralized mortgage obligations ("CMO's") which made up approximately 49% of the purchases. We favor investments in mortgage-backed securities and CMO's because of the cash flow these instruments provide for funding loan growth. Furthermore, yields on these securities are generally higher than yields on U.S. Government Agency securities. U. S. Government Agency securities purchased accounted for approximately 34%, with the remainder of the purchases being municipal securities.

At December 31, 2004, unrealized losses of \$3,385 were recorded on investment securities with a book value of \$165,008. These unrealized losses are primarily attributable to changes in interest rates. At December 31, 2004, our investment portfolio mix remained similar to December 31, 2003, with approximately half of the portfolio comprised of mortgage-backed securities.

In 2003, securities income on a tax equivalent basis decreased \$2,176 to \$17,173 from securities income on a tax equivalent basis in 2002. The average balance in the investment portfolio was \$356,166, up \$31,913, or 9.84%, over 2002. The tax equivalent yield on the portfolio was 4.82%, down 115 basis points from 2002. The decrease in interest income and tax equivalent yield on the security portfolio during 2003 was primarily due to accelerated prepayment on mortgage backed securities which resulted in amortization of premiums paid on these securities over a shorter period of time. At December 31, 2003, the balance of securities was \$414,270, an increase of \$69,489 as compared to December 31, 2002. During 2003, we purchased \$286,651 in securities. Maturities and calls totaled

\$169,989. We sold \$39,479 in securities, primarily in mortgage-backed securities. The purchases were primarily mortgage-backed securities and CMO's, comprising approximately 73% of the purchases. U. S. Government Agency securities purchased accounted for approximately 23%, with the remainder of the purchases being municipal securities.

In December 2003, we borrowed \$25,000 from the FHLB to fund the purchase of agency securities and CMO's. These securities were primarily one-month LIBOR based floating rate agency securities. In addition, we purchased approximately \$20,000 in mortgage-backed securities and CMO's from the proceeds of the issuance of junior subordinated debentures. These two transactions were the major contributors to the 66.90% and 16.01% growth in U.S. Government Agencies and mortgage-backed securities, respectively, from 2002 to 2003.

Deposits and Deposit Interest Expense

The Company relies on deposits as its major source of funds. Total deposits were \$1,318,677, \$1,133,931, and \$1,099,048 as of December 31, 2004, 2003, and 2002, respectively. The acquisition of Renasant Bancshares increased total deposits by \$185,319. Excluding deposits from Renasant Bancshares, deposits decreased slightly from \$1,133,931 at December 31, 2003 to \$1,133,358 at December 31, 2004. Deposit growth for 2003 was 3.17%, relatively unchanged from our 2002 growth of 3.39%. Interest expense for deposits was \$17,382, \$18,818, and \$24,034, for 2004, 2003, and 2002, respectively. The cost of interest-bearing deposits was 1.62%, 1.93%, and 2.53%, for the same periods.

Average Interest-Bearing Deposits to Total Average Deposits

| 2004 | 2003 | 2002 |
|---------------|--------|--------|
| 85.87% | 85.96% | 86.10% |

Interest-bearing deposits at December 31, 2004, 2003, and 2002 were \$1,117,755, \$979,852, and \$951,483, respectively. Interest-bearing deposits at December 31, 2004, excluding interest-bearing deposits acquired in connection with our acquisition of Renasant Bancshares, decreased 2.62% from December 31, 2003. Time deposits decreased at December 31, 2004 as compared to December 31, 2003. Approximately 54.11% of the decrease in time deposits is attributable to a decrease in public fund time deposits. Growth in interest-bearing deposits for 2003 over 2002 was 2.98%, primarily due to interest-bearing demand deposits.

Noninterest-bearing deposits were \$200,922, \$154,079, and \$147,565 at December 31, 2004, 2003, and 2002, respectively. The acquisition of Renasant increased non-interest bearing deposits by \$21,959. The average balance of non-interest bearing deposits for 2004 was up 10.88% over 2003; the average balance of non-interest bearing deposits for 2003 was up 4.05% over that of 2002.

Demand deposits and non-public interest-bearing transaction accounts, excluding deposit accounts acquired in connection with the acquisition of Renasant Bancshares, increased \$21,811 and \$35,949, respectively, at December 31, 2004 from December 31, 2003. The growth in demand deposits and non-public interest-bearing transaction accounts is primarily attributed to the continued success of Haberfeld Associates' High Performance Checking Account Marketing Program, which we implemented during the second quarter of 2003. The purpose of this program is to attract and retain new deposit clients in a cost efficient manner, providing greater cross-sales opportunities. This program provides the client with a choice of seven value-priced transaction accounts. The cornerstone of this program is the free, full-service checking account.

The increase in demand deposits and non-public interest-bearing transaction accounts in 2004 was partially offset by decreases in public fund interest-bearing transaction accounts and time deposits. These deposit types, exclusive of similar deposit types acquired in connection with our acquisition of Renasant Bancshares, decreased \$16,730 and \$22,168, respectively, at December 31, 2003, to December 31, 2004.

Public funds, one of a number of alternatives that the Company utilizes to meet its liquidity needs, may be readily obtained based on the Company's aggressiveness in pricing. The source of funds that we select depends on the terms and how those terms assist us in mitigating interest rate risk. Interest spread is the difference between the interest earned on earning assets and the interest paid on costing liabilities. Because we are cognizant of interest spread, funds are only acquired when needed and at a rate that is prudent under the circumstances. Normally, public fund time deposits are higher costing due to the volume of the deposits and because they are obtained through a bid process. If demand for those funds rises, the cost of those deposits increases and vice versa.

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The trend of decreasing time deposits has continued as customers have kept their deposits very liquid with expectations of higher interest rates. Rates paid on time deposits ranged from .25% to 3.25% at the end of 2004.

At December 31, 2003, the balance of demand deposits and interest bearing demand deposits increased \$6,514 and \$45,285, respectively, as compared to the balance at December 31, 2002. The growth is attributable to the implementation of the HPC program and customers shifting their time deposits into more liquid interest-bearing accounts. Total time deposits decreased \$26,801 during 2003 as compared to 2002. Further, we did not aggressively price our time deposits in our markets as funds were not needed to meet t loan demand.

Borrowed Funds and Interest Expense on Borrowings

Interest expense on total borrowings (inclusive of advances from the FHLB and treasury tax and loan account balances) was \$4,414 in 2004, up 49.17% from 2003 due to an increase of \$53,715 in the average balance of total borrowings. The interest expense effect of the increase in the average balance more than offset the decrease in interest expense due to the decline in the rates paid on borrowed funds.

Throughout 2004, the Company relied more heavily than in past years on borrowed funds as we faced difficulty in generating sufficient deposits to meet the loan demand. The average balances of borrowed funds were \$137,008, \$83,293, and \$59,563 for 2004, 2003, and 2002, respectively. The cost of those funds in 2004 was 3.22%, down 33 basis points from 3.55% in 2003. The cost of borrowed funds for 2002 was 4.18%.

Advances from the Federal Home Loan Bank ("FHLB") were \$109,756, \$90,987, and \$86,308 for the years ended December 31, 2004, 2003, and 2002 respectively. Advances from the FHLB were up 20.63% and 5.42% over the prior year balances in 2004 and 2003, respectively. Funds were borrowed from the Federal Home Loan Bank to match-fund against certain loans, negating interest rate exposure when rates rise. Such match-funded loans are typically large commercial or real estate loans.

In addition, the Company issued \$20,619 in junior subordinated debentures during the fourth quarter of 2003 to provide funds for the Renasant Bancshares acquisition and to meet other capital resource needs. This issuance increased our interest expense on borrowed funds for 2004 by \$982 as compared to 2003. The junior subordinated debentures bear interest at a rate equal to 3-Month LIBOR plus 285 basis points. At December 31, 2004, the interest rate on the junior subordinated debentures was 5.35%.

Interest expense on total borrowings was \$2,959 in 2003, up \$468 from 2002 due to an increase of \$23,730 in the average balance of total borrowings. The increase in the average balance more than offset the decrease in the interest expense due to the decline in the rates paid on borrowed funds. The cost of borrowed funds was 3.55% in 2003 compared to 4.18% in 2002. Part of our 2003 borrowings from the FHLB included \$25,000 borrowed in December 2003 in order to offset the amortization of approximately \$370 in issuance cost associated with issuing the junior subordinated debentures. We also purchased \$25,000 in securities for the same purpose. The transaction resulted in a positive spread of approximately 1.60% between the securities and the debt. The term of the debt from the FHLB is for five years. The interest rate, which floats with three-month LIBOR, was 1.14% at December 31, 2003. The securities consisted of two, seven-year maturity, U.S. Government Agency securities with a coupon rate of 2.77%, and a CMO which floats with one-month LIBOR at a coupon rate of 2.62%.

The treasury tax and loan account balances for 2004, 2003, and 2002 were \$3,183, \$6,958, and \$5,498, 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.

Noninterest income

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

| 2004* | 2003 | 2002 |
|--------------|--------------|--------------|
| 2.06% | 2.31% | 2.13% |

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

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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 noninterest income. Our focus over the last years has been to develop and enhance our products for generating noninterest income. We believe our new markets in Tennessee and Alabama will provide us with opportunities to further grow our noninterest income.

For 2004, noninterest income was \$32,287, an increase of \$394 over 2003, or 1.24%. As discussed below, noninterest income for 2004 includes a \$1,093 other-than-temporary impairment charge on certain FNMA and FHLMC preferred securities. In addition, noninterest income for 2004 includes a \$1,000 gain from the sale of our merchant card servicing business. For 2003, noninterest income was \$31,893, an increase of \$3,920 over 2002, or 14.01%.

We hold FNMA and FHLMC preferred stock with a market value of \$5,050 in our security portfolio. The securities pay a dividend based on treasury rates and reset periodically. During the fourth quarter of 2004, these agencies issued new securities as part of a settlement reached with federal regulatory agencies. These newly issued securities had terms which were more favorable than the securities we hold. Prior to the issuance, the fair market value of the securities was below their carrying value due to increases in interest rates. Although the securities we hold are rated AA- and Aa3 by Standard & Poor and Moody's, respectively, we concluded that the decline in the market value of the securities, in light of the new security issuance, was other-than-temporary. Thus, we recorded a \$1,093 non-cash impairment charge during the fourth quarter of 2004. The impairment is shown in the income statement line item "Securities (losses)/gains". Excluding the impairment charge, gains on sale of securities for 2004 were \$72.

Security gains of \$191 for 2003 resulted from \$39,479 in security sales, primarily from the sale of mortgage-backed securities. Securities gains of \$93 for 2002 resulted from \$46,870 in security sales. These, too, were primarily mortgage-backed securities that were sold to eliminate those securities with maturity concentrations or accelerated prepayments. Sales also included securities in U.S. Government Agency, obligation of state and political subdivision, and other preferred stock sectors.

On June 1, 2004, we sold our interest in and rights to future revenue on credit card merchant agreements involving point of sale based credit card, debit card and other card-based transaction processing services, electronic payment and settlement services to Nova Information Systems, Inc. ("Nova"). The sale involved approximately 1,000 credit card merchant processing accounts along with an insignificant amount of hardware consisting of approximately 150 credit card terminals and printers. In connection with the sale, Nova assumed financial liability for merchant transactions from the date of the sale. We will no longer continue to receive merchant discount revenue. We will receive referral fees from Nova, although such fees will likely be significantly less than our merchant discount revenue. Revenue from merchant servicing was \$672, \$1,287 and \$1,275 for the years ended December 31, 2004, 2003 and 2002.

Charges for deposit services, a major contributor to noninterest income, were \$15,355 for 2004, an increase of \$938 or 6.51% from 2003. The acquisition of Renasant Bancshares contributed \$160 of this increase. The primary reason for the increase is the success of the HPC program in increasing the number of service-chargeable deposit accounts. Service charges include maintenance fees on accounts, per item charges, account enhancement charges for additional packaged benefits and overdraft fees. Service charges on deposits in 2002 were \$12,578. The increase in service charges during 2003 of \$1,839 was primarily associated with the increase in accounts due to the HPC program initiated in 2003.

Fees and commissions (which includes fees charged for both deposit services and loan services) increased \$542, or 7.88% to \$7,416 during 2004 as compared to \$6,874 for 2003. Fees recorded from deposit services increased \$894, or 33.92%, over similar fees generated for 2003. Income derived from use of our debit cards made up 73.94% of the total increase in deposit-related fees for 2004. Fees recorded for loan services decreased \$352 from 2003. As a result of the decrease in origination of mortgage loans for sale, mortgage loan fees decreased \$759. Fees charged on mortgage loans originated for sale include title insurance, underwriting fees, and origination fees. This decrease was partially offset by increased fees generated for other loans, particularly commercial, as a result of increased volume.

Fees and commissions increased \$1,133 to \$6,874 in 2003 from \$5,741 in 2002. Fees generated from deposit services increased \$344, primarily from income derived from use of our debit cards and the sale of alternative financial products (such as mutual funds and annuities). Fees generated from loan services increased \$790 over 2002, largely due to the record volume of mortgages originated for sale.

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Gains on the sale of mortgage loans for 2004 were \$583, a decrease of \$714, or 55.05%, from 2003. As mortgage interest rates have slowly increased compared to the historic lows in 2003, homeowner refinancing and mortgage originations have declined. As such, originations of mortgage loans to be sold totaled \$45,331 for 2004 as compared to \$121,844 in 2003. We do not expect future levels of homeowner refinancings and gains on sale of mortgage loans to reach the 2003 levels. This revenue has been included in the Consolidated Statements of Income under the caption "Gains on sales of mortgage loans."

Gains on the sale of mortgage loans for 2003 were \$1,297, an increase of \$543, or 72.02%, from 2002. We closed approximately \$121,844 in mortgage loans in 2003 up 58.24% over the volume closed for 2002 of approximately \$77,000.

Income earned on insurance products was \$3,590, \$3,602 and \$3,329 for the year ended December 31, 2004, 2003 and 2002, respectively. Through our insurance agency, Renasant Insurance, we offer a range of commercial and personal insurance products through major insurance carriers. Contingency income is a bonus received from the insurance underwriters and is based both on commission income and claims experience on our client's policies during the previous year. Contingency income for 2004, 2003 and 2002 was \$390, \$138 and \$270, respectively. The increase in claims paid by insurance carriers in 2002 resulted in lower contingency income for 2003.

We have a Financial Services division within Renasant Bank. The Financial Services division for the Company includes four departments: the trust department, a benefits group, the wealth management department, and the financial services department. The trust department operates on a custodial basis, which includes administration of benefit plans and accounting and money management for trust accounts. The benefits group focuses on providing a product line to assist corporate clients with succession planning, as well as offering such other products as disability insurance. This group consists of an outsourcing arrangement with a third party in which the Company receives commissions based on their sales volume. Our wealth management department works in conjunction with retail banking, but with more affluent clients. These clients are offered a full line of deposit and loan products, financial planning, and cash management services.

The financial services department consists of licensed agents who sell annuities, mutual funds, stocks, and both term and permanent life insurance. These brokerage services are offered through a third party provider. Under the agreement with the third party provider, we receive commissions based on our sales and assume no further obligation or liability to the client. The entire commission is recorded into income when paid by the third party provider, which is on a monthly basis. While we offer both fixed and variable annuities, sales in fixed annuities accounted for the majority of the total annuity sales and represented approximately 62.37% of the total revenue generated by the financial services department in 2004. Fixed annuities consist of a line of twelve products. We use six insurance carriers, all who receive an A. M. Best rating of an "A" or better. Mutual funds offered by the Company originate primarily from five fund families and, during 2004, accounted for approximately 21.72% of the revenue generated from the financial services department. Commission from the sale of both annuities and mutual funds are reported in the Consolidated Statements of Income in the account line "Fees and Commissions." While the financial services department typically works independently from trust and wealth management, referrals to those areas may be made if the client's needs would be more appropriately met by other product lines.

In 2004, the revenue generated by the Financial Services division as a whole increased \$394 an improvement of 16.17% over 2003. In 2003, the revenue generated by the Financial Services division increased \$444, an improvement of 22.27% over 2002. Revenue reported from the Financial Services division is gross of any direct department expense.

Trust department revenue is reported in the Consolidated Statements of Income in the noninterest income section in the line account "Trust Revenue." Trust revenue increased 22.83% to \$2,147 for 2004 compared to \$1,748 for 2003. Continued improvement in the stock market and customers seeking higher yielding investment opportunities given the low interest rate environment fostered the increased activity. Also significant to this increase is the impact and focus from the new management in this area. Training, coupled with better sales goals, helped employees exceed the Company's plan. The market value of trust assets under management as of December 31, 2004 and 2003 was \$399,382 and \$359,527, respectively. Assets under management increased approximately 11.09% for 2004 primarily from an increase in new business. New business accounted for approximately 59.12% of the growth from 2003. Trust revenue increased \$236 to \$1,748 for 2003 compared to \$1,512 for 2002.

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Revenue from the financial services department and the benefits group is reported in the Consolidated Statements of Income in the noninterest income section in the line account "Other." Revenue generated from the financial services department totaled \$661, \$661 and \$454 for 2004, 2003 and 2002, respectively. The benefits group revenue was \$22, \$25 and \$26 for 2004, 2003 and 2002, respectively. Revenue earned from the wealth management department may be derived from a number of sources and is recorded in the Consolidated Statements of Income in line accounts "Interest Income-Loans," "Interest Expense-Deposits," and in the noninterest income section in line accounts "Service Charges on Deposit Accounts," "Fees and Commissions" "Insurance Commissions", "Trust Revenue" and "Other."

Noninterest Expense

Noninterest Expense to Average Assets

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|--------------|-------------|-------------|
| 3.87% | 3.88% | 3.91% |

Total noninterest expense includes salaries and employee benefits, data processing, net occupancy, equipment, and other noninterest expense. Noninterest expense was \$60,709, \$53,193, and \$51,027 for 2004, 2003, and 2002, respectively. Noninterest expenses incurred in connection with our acquisition of Renasant Bancshares during 2004 totaled \$3,796.

Salaries and employee benefits represented 55.03%, 55.43%, and 57.62% of total noninterest expenses at December 31, 2004, 2003, and 2002, respectively. During 2004, salaries and employee benefits increased \$3,920 to \$33,406 as compared to \$29,486 for 2003. Renasant Bancshares contributed \$1,744 in salaries and employee benefits expense during 2004. The remaining increase in salaries and employee benefits was primarily due to normal annual salary increases and staffs at the newly opened Horn Lake and Oxford offices.

Salaries for 2003 increased to \$29,486 as compared to \$29,400 in 2002 due to normal annual salary increases and staff additions. In addition, commission expense increased \$327 over 2002, directly attributable to the increase in revenue generated through mortgage loans, insurance, and annuities/mutual fund sales. The incentive cost for 2003 was \$1,894 less than the 2002 expense.

Data processing costs increased \$389, or 9.50%, to \$4,483 for 2004 as a result of continued technological enhancements, increased account volume as a result of the HPC program and increased processing volume from the acquisition of Renasant Bancshares.

In 2003, data processing cost increased \$333, or 8.85%, as we continued to improve our technology by installing a new loan platform system designed in part to simplify the lending process for our "front-line" staff. In addition, we customized a loan-pricing program which was installed in the first quarter of 2004. Finally, we upgraded our teller platform system during the second half of 2003 to a Windows-based system from a DOS-based system. The new system has more functionality and provides the teller with more information about the client.

Occupancy expense in 2004 was up \$463, or 13.69%, from 2003. The increase due to the acquisition of Renasant Bancshares accounted for approximately 44% of the increase. The remainder was primarily due to additional depreciation and other occupancy costs incurred in connection with opening the new branch in Horn Lake, Mississippi and the loan production office in Oxford, Mississippi. As we continue to expand our footprint in our new markets, we will continue to experience gradual increases in our occupancy and equipment expense.

Occupancy expense in 2003 was up \$275, or 8.85%, from 2002. Increases in occupancy resulted from costs incurred in the opening of a new branch office in Corinth and expanding our technology center.

Computer and equipment expense increased \$857 over 2003, approximately \$140 of which was due to Renasant Bancshares. Excluding additional expenses from the acquisition, depreciation on software, computer equipment and other equipment increased \$294, and maintenance and support fees increased \$155. Also, we wrote off approximately \$295 of obsolete equipment no longer in service. We replaced some equipment in 2004 because it failed to integrate well when enhancements were made to our platform systems, resulting in processing problems and down-time.

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Computer and equipment expenses for 2003 decreased \$88, or 2.77%, from 2002. We implemented a new loan platform system, which became operational in the first quarter of 2003. It has been, and will continue to be, our practice to seek technological improvements, to evaluate the benefits, and to proceed 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.

Professional fees for legal and accounting services, which were \$1,539 for 2004, decreased slightly as compared to \$1,563 for 2003. We expect our professional fees to remain at these levels in the future given the increase in regulatory and oversight responsibilities. Professional fees for 2003 increased approximately \$388, or 33.03% over 2002. We expensed approximately \$370 for consultant assistance in various revenue enhancement projects, primarily related to deposit fees and cash management.

Advertising expense for 2004 was comparable to 2003, up \$42, or 2.15%, inclusive of advertising costs associated with the acquisition of Renasant Bancshares. Advertising expense for 2003 was up \$880, or 81.71% over advertising expense for 2002. The marketing cost of the Haberfeld High Performance Checking program, which began in 2003, was \$872. This program was not intended to replace other marketing plans.

Amortization of intangible assets increased \$522 to \$1,015 for 2004 compared to \$493 for 2003. In connection with the Renasant Bancshares acquisition, we recorded \$5,801 in finite-lived intangible assets. These intangible assets are being amortized over their estimated useful lives, which range between 5-7 years. Amortization expense of \$493 for 2003 was flat as compared to 2002.

Efficiency Ratio

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---------------|-------------|-------------|
| 66.93% | 63.16% | 61.55% |

The efficiency ratio is a standard performance measurement tool which encompasses tax equivalent net interest income, noninterest income (excluding security gains or losses) and noninterest expense. Our efficiency ratio increased in 2004 from 2003. This increase resulted primarily from an increase in non-interest expenses due to the Renasant Bancshares acquisition and compliance with the Sarbanes-Oxley Act of 2002. The increase in the efficiency ratio for 2003 as compared to 2002 was primarily due to decreases in net interest income over the same period.

Income Taxes

Income tax expense for 2004, 2003, and 2002 was \$6,816, \$6,839, and \$6,819, respectively. The effective tax rates for those years were 26.98%, 27.33%, and 27.85%, respectively. The effective tax rate for 2004 is down due to tax decreases as a result of tax planning and our continued investment in tax-exempt securities, and tax-free leases and loans. In both 2003 and 2002, we recorded a nontaxable death benefit from life insurance.

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 risk. Credit and interest rate risk are discussed below, while liquidity risk is discussed in the next subsection under the heading “Liquidity.”

Credit Risk and Allowance for Loan Losses

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 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 FASB Statement 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 \$14,403, and \$13,232 at December 31, 2004 and 2003, respectively.

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.

A number of committees and an underwriting staff oversee the lending operations of the Company. 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 on consumer and commercial loans below certain dollar thresholds, 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 comprised of senior officers of the Company. 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.

Grades are assigned by lending personnel based on the scoring of the loans that are funded. Loan grades range from 1 to 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. 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. Large groups of smaller balance homogeneous loans are evaluated collectively for impairment. For impaired loans, a specific reserve is established to adjust the carrying value of the loan to its estimated net realizable value.

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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 and interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for problem loans of \$50 or greater 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, the loan is placed on nonaccrual.

Loan review personnel monitor the grades assigned to loans through periodic examination. 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 and adjusts the loan credit grade accordingly. This information is used to assist management in monitoring the credit quality.

The allowance for loan losses is established after input from management, loan review, and the Loss Management Committee. The adequacy of the allowance for loan losses is calculated quarterly, or more frequently if management deems it necessary. These calculations are reviewed by management and the internal loan review staff.

Foreclosure proceedings are initiated after all collection efforts have failed. The collateral is purchased from the borrower at public auction for fair market value, with fees associated with the foreclosure being deducted from the sales price. The purchase price is applied to the outstanding loan balance. If the loan balance is greater than the sales proceeds, the deficient balance is sent to the loan committee (comprised of the Board of Directors) for charge-off approval. These charge-offs reduce the allowance for loan losses. 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 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.

Provision for Loan Losses to Average Loans

| 2004 | 2003 | 2002 |
|------|------|------|
| .15% | .32% | .52% |

The provision for loan losses charged to operating expense is an amount which, in the judgment of management, is necessary to maintain the allowance for loan losses at a level that is adequate to meet the inherent risks of losses in our loan portfolio. The provision for loan losses was \$1,547, \$2,713, and \$4,350 for 2004, 2003, and 2002, respectively. Factors considered in management's assessment for the periods presented include the risk rating of individual credits, the size and diversity of our loan portfolio, current trends in net charge-offs, trends in non-performing loans, trends in past due loans and current economic conditions in the markets in which we operate.

During the fourth quarter of 2004, we sold approximately \$10,465 of commercial and commercial real estate loans for \$8,922. One loan with a balance of \$640 was classified as nonperforming at the time it was sold. The credit quality of the other loans, while not classified as nonperforming, had declined below our desired credit standards. As such, we had established a reserve in the allowance for loan losses for the loans sold of \$2,246. No gain or loss was recognized at the time of sale, although, we charged-off \$1,634 against the allowance for loan losses in connection with the sale of these loans. Existing reserves on these loans exceeded the amount charged-off as a result of the sale by approximately \$612. The excess of the reserve in the allowance for loan losses over the amount charged-off was reallocated to the remainder of the loan portfolio which reduced the provision for loan losses charged to operations during the fourth quarter of 2004.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. The net charge-offs for 2004 and 2003 were \$3,221 and \$1,684, respectively. The net charge-off ratio for 2004 was .32% and for 2003 was .20%. As discussed in the preceding paragraph, we sold approximately \$10,465 of commercial and commercial real estate loans during the fourth quarter of 2004. In connection with the sale of these loans, we charged-off \$1,634. This charge-off represented 45% of the total charge-offs and .16% of average loans for the year.

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Net charge-offs for 2003 decreased by \$1,817, or 51.90%, from 2002. For 2003, there was a significant decrease in all categories, with the largest decrease in the real estate-mortgage sector in the amount of \$846, or 48.45%. This improvement is attributed to the implementation of a more stringent loan review and evaluation process.

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

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Balance at beginning of year | \$13,232 | \$12,203 | \$11,354 | \$10,536 | \$10,058 |
| Addition from acquisition | 2,845 | — | — | — | — |
| Provision for loan losses | 1,547 | 2,713 | 4,350 | 4,790 | 6,373 |
| Charge-offs | | | | | |
| Commercial, financial, agricultural | 1,685 | 511 | 1,025 | 951 | 2,237 |
| Real estate-construction | — | — | 142 | 59 | 37 |
| Real estate-1-4 family mortgage | 1,083 | 488 | 876 | 968 | 678 |
| Real estate-commercial mortgage | 125 | 530 | 1,096 | 751 | 1,068 |
| Installment loans to individuals | 724 | 514 | 1,028 | 1,574 | 2,338 |
| Total charge-offs | 3,617 | 2,043 | 4,167 | 4,303 | 6,358 |
| Recoveries | | | | | |
| Commercial, financial, agricultural | 132 | 52 | 81 | 39 | 100 |
| Real estate-construction | — | — | 51 | 1 | 4 |
| Real estate-1-4 family mortgage | 66 | 68 | 157 | 25 | 34 |
| Real estate-commercial mortgage | 8 | 50 | 69 | 19 | 66 |
| Installment loans to individuals | 190 | 189 | 308 | 247 | 259 |
| Total recoveries | 396 | 359 | 666 | 331 | 463 |
| Net charge-offs | 3,221 | 1,684 | 3,501 | 3,972 | 5,895 |
| Balance at end of year | \$14,403 | \$13,232 | \$12,203 | \$11,354 | \$10,536 |
| Net charge-offs to: | | | | | |
| Loans-average | .32% | .20% | .42% | .49% | .72% |
| Allowance for loan losses | 22.36% | 12.73% | 28.69% | 34.98% | 55.95% |
| Allowance for loan losses to: | | | | | |
| Loans-year end | 1.26% | 1.53% | 1.42% | 1.39% | 1.30% |
| Nonperforming loans | 166.30% | 181.09% | 338.22% | 178.63% | 147.89% |
| Nonperforming loans to: | | | | | |
| Loans-year end | .76% | .85% | .42% | .78% | .88% |
| Loans-average | .87% | .86% | .43% | .78% | .87% |

Nonperforming loans are those on which the accrual of interest has stopped or loans which are contractually past due 90 days, on which interest continues to accrue. 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. Management, the Loss Management Committee, and our loan review staff closely monitor loans that are considered to be nonperforming.

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.

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The following table shows the principal amounts of nonperforming and restructured loans at December 31:

| <i>(In Thousands)</i> | 2004 | 2003 | 2002 | 2001 | 2000 |
|---------------------------------------------------|----------------|---------|---------|---------|---------|
| Nonperforming loans: | | | | | |
| Nonaccruing | \$6,443 | \$4,624 | \$1,417 | \$ 614 | \$1,209 |
| Accruing loans past due 90 days or more | 2,228 | 2,683 | 2,191 | 5,742 | 5,915 |
| Total nonperforming loans | 8,671 | 7,307 | 3,608 | 6,356 | 7,124 |
| Restructured loans | 760 | 384 | — | — | — |
| Total nonperforming and restructured loans | \$9,431 | \$7,691 | \$3,608 | \$6,356 | \$7,124 |
| Interest income foregone | \$ 265 | \$ 6 | — | — | — |

All loans where information exists about possible credit problems that would cause us to have serious doubts about the borrower's ability to comply with the current terms of the loan have been reflected within the table above. Approximately 65.42% of the nonaccrual loans is attributable to one large credit relationship. The relationship is secured by income producing real estate properties. The Company continues to closely monitor this credit and believes it has adequately reserved for any exposure as of December 31, 2004.

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.

| <i>(In Thousands)</i> | 2004 | 2003 | 2002 | 2001 | 2000 |
|-------------------------------------|-----------------|----------|----------|----------|----------|
| Commercial, financial, agricultural | \$ 3,437 | \$ 3,158 | \$ 2,724 | \$ 6,838 | \$ 6,470 |
| Lease financing | 97 | 89 | 279 | 330 | 371 |
| Real estate-construction | 447 | 411 | 343 | — | — |
| Real estate –1-4 family mortgage | 4,638 | 4,243 | 3,969 | 942 | 726 |
| Real estate-other mortgage | 4,854 | 4,459 | 3,634 | 762 | 520 |
| Installment loans to individuals | 930 | 854 | 1,055 | 2,346 | 2,238 |
| Unallocated | — | 18 | 199 | 136 | 211 |
| Total | \$14,403 | \$13,232 | \$12,203 | \$11,354 | \$10,536 |

The following table quantifies the amount of the specific reserves component of the allowance for loan losses and the amount of the allowance determined by applying allowance factors to graded loans at December 31 for each of the years presented:

| <i>(In Thousands)</i> | 2004 | 2003 | 2002 | 2001 | 2000 |
|-----------------------------------------|-----------------|----------|----------|----------|----------|
| Specific reserves | \$ 2,786 | \$ 2,630 | \$ 1,806 | \$ 1,289 | \$ 517 |
| Allocated reserves based on loan grades | 11,617 | 10,584 | 10,198 | 9,929 | 9,808 |
| Unallocated | — | 18 | 199 | 136 | 211 |
| Total | \$14,403 | \$13,232 | \$12,203 | \$11,354 | \$10,536 |

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Loan Concentrations

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

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|-------------------------------------|---------|---------|---------|---------|---------|
| Commercial, financial, agricultural | 15.38% | 16.25% | 16.22% | 16.92% | 17.74% |
| Lease financing | 0.95 | 1.41 | 1.78 | 2.01 | 2.28 |
| Real estate-construction | 8.45 | 5.89 | 4.32 | 3.74 | 3.16 |
| Real estate –1-4 family mortgage | 32.91 | 33.98 | 34.08 | 35.38 | 35.74 |
| Real estate-other mortgage | 34.61 | 32.47 | 32.32 | 28.63 | 25.57 |
| Installment loans to individuals | 7.70 | 10.00 | 11.28 | 13.32 | 15.51 |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. At December 31, 2004, no concentrations of loans exceeding 10% of total loans existed which were not disclosed as a separate category of loans.

Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. 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. Our market risk arises primarily from interest rate risk inherent in lending and deposit-taking activities. Management believes the most significant impact on the Company's financial results stems from our ability to react to changes in interest rates. To that end, management actively monitors and manages our interest rate risk exposure.

We have an Asset/Liability Committee ("ALCO"), which is authorized by the Board of Directors to monitor our interest rate sensitivity and to make decisions relating to that process. The ALCO's goal is to structure our asset-liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital. 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 and net portfolio value ("NPV") using rate shock analysis. Net interest income simulations measure the short-term earnings exposure from changes in market rates of interest in a more rigorous and explicit fashion. Our current financial position is combined with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. The NPV measures our long-term earnings exposure from changes in market rates of interest. NPV is defined as the present value of assets minus the present value of liabilities at a point in time. A decrease in NPV due to a specified rate change indicates a decline in the long-term earnings capacity of the balance sheet assuming that the rate change remains in effect over the life of the current balance sheet. The following rate shock analysis depicts the estimated impact on net interest income and NPV 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⁾ | | Net Portfolio Value ⁽²⁾ | |
| | 2004 | 2003 | 2004 | 2003 |
| +200 | (4.3)% | (1.2)% | (15.7)% | (9.8)% |
| +100 | (1.9)% | (.1)% | (8.0)% | (4.4)% |
| -100 | (2.2)% | (.3)% | 5.7% | 4.0% |
| -200 | (6.5)% | (8.9)% | 12.9% | 8.7% |

⁽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.

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

The balance sheet structure as of December 31, 2004 indicates we are liability sensitive. To mitigate our interest rate risk in the rising rate environment, we implemented a strategy of concentrating our loan growth in the form of variable products while extending the terms of the funding. The results of the interest rate shock are within the limits set by the Board of Directors. The above scenarios assume instantaneous movements in interest rates in increments of 100 and 200 basis points. Recently, it has been the Federal Reserve Board's policy to adjust the target federal funds rate over a period of time in 25 basis point increments. As interest rates are adjusted gradually over a period of time, we are able to proactively change the volume and mix of our balance sheet in order to mitigate our interest rate risk.

The preceding measures assume no change in asset/liability compositions. Thus, the measures do not reflect actions the ALCO may undertake in response to such changes in interest rates.

The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions regarding characteristics of new business and the behavior of existing positions. These business assumptions are based upon our experience, business plans and published industry experience. Key assumptions employed in the model include asset prepayment speeds, the relative price sensitivity of certain assets and liabilities and the expected life of non-maturity deposits. Because these assumptions are inherently uncertain, actual results will differ from simulated results.

The Company enters into mortgage loan commitments with its customers. Under the mortgage loan commitments, interest rates for a mortgage loan may be locked into for up to thirty days with the customer. Once a mortgage loan commitment is entered into with a customer, the Company enters into a sales agreement with an investor in the secondary market to sell such loan on a "best efforts" basis. As such, the Company does not incur risk if the mortgage loan commitment in the pipeline fails to close. Other than mortgage loan commitments, we have not entered into any other derivative activities.

Liquidity and Capital Resources

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 markets is the key to assuring liquidity. 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. This is evidenced by our increase in core deposits during 2004, even when our acquisition of Renasant is excluded. Management continues to monitor the liquidity and potentially volatile liabilities ratios to ensure compliance with Asset-Liability Committee targets.

Our security portfolio is another alternative for meeting liquidity needs. These assets have readily available markets that offer conversions to cash as needed. Within the next twelve months the securities available for sale portfolio is forecasted to generate cash flow equal to 10.04% of the carrying value of the total securities portfolio. Other sources available for meeting liquidity needs include federal funds purchased and advances from the FHLB. Interest is charged at the market federal funds rate on federal funds purchased and FHLB advances. Federal funds purchased at December 31, 2004 totaled \$51,500. Funds obtained from the FHLB are used primarily to match-fund real estate loans in order to minimize interest rate risk, and may be used to meet day to day liquidity needs. The total amount of remaining credit available to us from the FHLB was \$226,441. As of December 31, 2004, our outstanding balance with the FHLB was \$109,756. We also maintain lines of credits with other commercial banks totaling \$35,000. These are unsecured lines of credit maturing at various times within the next twelve months. At December 31, 2004, there were no amounts outstanding under these lines of credits.

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At December 31, 2004, our total cost of funds, including noninterest bearing demand deposit accounts, was 1.57%, down from 1.79% at December 31, 2003. Noninterest bearing demand deposit accounts made up approximately 14.13% of our average total deposits and borrowed funds at that date, comparable to 14.04% at December 31, 2003. Management targets growth of non-interest bearing deposits. Interest bearing transaction accounts, money market accounts and savings accounts made up approximately 42.03% of our funds and had an average cost of 0.86%. Another significant source of funds was time deposits, making up 43.84% of the total deposits with an average cost of 2.34% for 2004, compared to 47.46% of the total with an average cost of 2.61% at December 31, 2003. FHLB Advances, typically used for clients who prefer longer-term fixed rate loans, made up approximately 6.48% of our average total deposits and borrowed funds with an average cost of 3.30%.

Our strategy in choosing funds is focused on attempting to mitigate interest rate risk, and thus we utilize funding sources that are commensurate with the interest rate risk associated with the assets. Accordingly, management targets growth of non-interest bearing deposits. While we do not control the types of deposit instruments our clients choose, we do influence those choices with the rates we offer and with the deposit specials we offer. For example, we mentioned that public funds may be readily obtained based on our aggressiveness in pricing. We constantly monitor our funds position and evaluate the effect various funding sources have on our financial position.

Cash and cash equivalents were \$56,025 at December 31, 2004, compared to \$53,479 at December 31, 2003. Cash used in investing activities for the year ended December 31, 2004, was \$66,409, compared to \$86,698 for the same period of 2003. The primary contribution to this decrease was due to an increase of \$173,434 in securities available for sale purchased in 2003 as compared to 2004. Investment portfolio activity decreased as loan demand increased, resulting in a shift in earning asset types. Cash used in funding additional loan volume for the year ended December 31, 2004 was \$112,541.

Cash provided by financing activities for the year ended December 31, 2004, was \$41,967, compared to \$57,389 for the same period of 2003. At December 31, 2004, the Company had \$20,619 in junior subordinated debentures which were issued during the fourth quarter of 2003. The funds provided by the issuance of the subordinated debentures represents the majority of the decrease in financing activities borrowings.

The Company acquired Renasant Bancshares on July 1, 2004. The aggregate transaction value, including deal charges and the dilutive impact of Renasant Bancshares' options and warrants assumed by the Company, was approximately \$60,290. In accordance with the merger agreement, the Company delivered to Renasant Bancshares shareholders either cash, Company common stock, or a combination of cash and Company common stock, in exchange for the shares of Renasant Bancshares common stock owned by a shareholder. The cash portion of the merger consideration was \$26,128, and was funded with proceeds from issuance of Junior Subordinated Debentures under PHC Statutory Trust I and a special dividend from Renasant Bank. The Company issued 802,094 shares of its common stock in the transaction, totaling approximately \$27,720. These shares were registered under the Securities Act of 1933, as amended.

The Company completed the acquisition of Heritage on January 1, 2005. The aggregate transaction value, including deal charges and the dilutive impact of Heritage's options assumed by the Company, was approximately \$75,366. In accordance with the merger agreement, the Company delivered to Heritage shareholders either cash, Company common stock, or a combination of cash and Company common stock, in exchange for the shares of Heritage common stock owned by a shareholder. The cash portion of the merger consideration was \$23,055, and was funded with proceeds from issuance of \$31,959 in junior subordinated debentures to PHC Statutory Trust II. The Company issued 1,369,589 shares of its common stock in the transaction, totaling approximately \$45,333. These shares were registered under the Securities Act of 1933, as amended.

The Company announced on September 3, 2004, plans to construct a full-service community bank in Oxford, Mississippi. It is anticipated that this facility will open in the third quarter of 2005. We expect to incur an additional \$1.4 million of capital expenditures in connection with this opening. The Company opened a branch, offering loan and other financial services products, in downtown Oxford near the Square in October 2004. We are currently leasing this facility.

Off-Balance Sheet Transactions

The Company enters into loan commitments and standby letters of credit in the normal course of its business. 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 and underwriting policies. Collateral (e.g. securities, receivables, inventory and equipment) is obtained based on management's credit assessment of the customer.

The Company's unfunded loan commitments and standby letters of credit outstanding at December 31, 2004 were \$219,087 and \$15,468, respectively. Loan commitments and standby letters of credit do not necessarily represent future cash requirements of the Company in that the borrower has the ability to draw upon these commitments at any time and these commitments often expire without being drawn upon.

Contractual Obligations

(In Thousands)

The following table presents, as of December 31, 2004, significant fixed and determinable contractual obligations to third parties by payment date.

| | Note Reference | Payments Due In: | | | | Total |
|---------------------------------------------------------------|----------------|------------------|--------------------|---------------------|-----------------|-----------|
| | | One Year or Less | One to Three Years | Three to Five Years | Over Five Years | |
| Deposits without a stated maturity ⁽¹⁾ | | \$ 751,823 | \$ — | \$ — | \$ — | \$751,823 |
| Time deposits ⁽²⁾ | E | 360,120 | 181,578 | 24,568 | 588 | 566,854 |
| Federal funds purchased ⁽²⁾ | F | 51,500 | — | — | — | 51,500 |
| Treasury tax and loan account ⁽²⁾ | F | 3,183 | — | — | — | 3,183 |
| Securities sold under agreements to repurchase ⁽²⁾ | F | 6,097 | — | — | — | 6,097 |
| Advances from the Federal Home Loan Bank ⁽²⁾ | G | 45,816 | 20,110 | 32,592 | 11,238 | 109,756 |
| Junior subordinated debentures ⁽²⁾ | G | — | — | — | 20,619 | 20,619 |
| Capital leases ⁽²⁾ | G | 16 | 36 | 340 | — | 392 |
| Purchase obligations ⁽³⁾ | | 2,654 | — | — | — | 2,654 |

The Note Reference above refers to the applicable footnote in Item 8, "Financial Statements and Supplementary Data".

⁽¹⁾ Excludes interest.

⁽²⁾ Includes accrued interest payable on obligations as of December 31, 2004.

⁽³⁾ Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligation amounts presented above primarily relate to certain contractual payments for capital expenditures for new branches and renovation to existing facilities.

Shareholders' Equity and Regulatory Matters

Total shareholders' equity of the Company was \$179,042 and \$137,625 at December 31, 2004 and 2003, respectively. Shareholders' equity increased 30.09% during 2004 and 3.65% during 2003 over the prior year. Book value per share was \$19.79 and \$16.79 at December 31, 2004 and 2003, respectively. The acquisition of Renasant Bancshares increased shareholders' equity by 24.34%. The remainder of the growth in capital was attributable to earnings retention, less unrealized securities losses, dividends declared and treasury shares purchased. In addition, the change in the net unrealized loss on securities available for sale decreased capital in 2004 by \$2,209 and in 2003 by \$2,401. Shareholders' equity as a percentage of assets was 10.49% and 9.72% at December 31, 2004 and 2003, respectively.

To improve the liquidity and trading volume of our common stock, we issued a three for two stock split during the fourth quarter of 2003. Although certain components of shareholders' equity were adjusted, the stock split did not result in a change to total shareholders' equity.

The Company has a share repurchase plan in place. The plan was adopted in September 2002, and authorizes the repurchase of 418,157 shares of Company common stock, subject to a monthly purchase limit of \$2,000. This plan will remain in effect until all authorized shares are repurchased or until otherwise instructed by the Board of Directors. As of December 31, 2004, 244,000 shares remain authorized for repurchase. Shares repurchased are held for reissue in connection with stock compensation plans and for general corporate purposes. Approximately 45,000 and 167,000 shares of stock were purchased during 2004 and 2003, respectively, for a total purchase price of \$1,423 and \$5,014, respectively.

We have increased our cash dividends for eighteen consecutive years.

In 2003, we issued \$20,619 of junior subordinated debentures which qualify and are included as Tier 1 capital at December 31, 2004. In January 2005, we issued an additional \$31,959 in junior subordinated debentures to provide funds for the cash portion of the Heritage acquisition. FASB Interpretation No. 46 raised questions about whether the debentures issued by an unconsolidated subsidiary trust will continue to be included in Tier 1 capital. The Federal Reserve Board issued new guidance in March 2005 providing more strict quantitative limits on the amount of securities, similar to our junior subordinated debentures, that are includable in Tier 1 capital. The new guidance, which becomes effective in March 2009, is not expected to impact the amount of debentures we include in Tier 1 capital.

The Federal Reserve, 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 I Risked-Based Capital | Tier Risked-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 | | |

The following table includes our capital ratios and the capital ratios of our banking subsidiaries as of December 31, 2004:

| | Consolidated | Mississippi Bank | Tennessee Bank |
|------------------------------------------|--------------|------------------|----------------|
| Tier I Leverage (to average assets) | 8.97% | 8.63% | 7.78% |
| Tier I Capital (to risk-weighted assets) | 12.40% | 12.32% | 8.93% |
| Total Capital (to risk-weighted assets) | 13.61% | 13.49% | 10.18% |

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The Company's liquidity and capital resources are substantially dependent on the ability of the Banks to transfer funds to the Company in the form of dividends, loans and advances. Please refer to Note K, "Restrictions on Cash, Bank Dividends, Loans, or Advances," in the Notes to Consolidated Financial Statements of the Company for a detailed discussion of the federal and state restrictions on the Banks' ability to transfer funds to the Company.

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, RENASANT BANK, P. O. BOX 709, TUPELO, MS 38802-0709.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to the discussion found under the captions "Risk Management" and "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations above for the disclosures required pursuant to Item 7A.

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 SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 2004, 2003, and 2002

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**Report on Management's Assessment of
Internal Control over Financial Reporting**

The Peoples Holding Company (the "Company") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with accounting principles generally accepted in the United States and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of the Company, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with accounting principles generally accepted in the United States. The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management conducted an assessment of the Company's system of internal control over financial reporting as of December 31, 2004, based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2004, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control – Integrated Framework". In conducting its assessment of the Company's system of internal control over financial reporting, management did not assess the internal control over financial reporting of Renasant Bank of Tennessee which was acquired July 1, 2004 and included in the Company's consolidated financial statements for the year ended December 31, 2004. The operations of Renasant Bank of Tennessee constituted 15.66% of total assets as of December 31, 2004 and 5.67% and 3.80% of total revenues and net income, respectively, for the year then ended. Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an attestation report on management's assessment of the Company's internal control over financial reporting which is included in this annual report.



E. Robinson McGraw
President and
Chief Executive Officer



Stuart R. Johnson
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
The Peoples Holding Company

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting, that The Peoples Holding Company (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

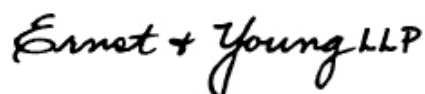
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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As indicated in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Renasant Bank of Tennessee, which was acquired July 1, 2004 and is included in the December 31, 2004 consolidated financial statements of The Peoples Holding Company. Renasant Bank of Tennessee constituted 15.66% of total assets as of December 31, 2004 and 5.67% and 3.80% of total revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Peoples Holding Company also did not include an evaluation of the internal control over financial reporting of Renasant Bank of Tennessee.

In our opinion, management's assessment that The Peoples Holding Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of The Peoples Holding Company and subsidiaries as of December 31, 2004 and for each of the three years in the period ended December 31, 2004, and our report dated March 3, 2005 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

March 3, 2005

Report of Independent Registered Public Accounting Firm

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 subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Peoples Holding Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2005 expressed an unqualified opinion thereon.

Ernst + Young LLP

Birmingham, Alabama
March 3, 2005

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

| | December 31 | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| | 2004 | 2003 |
| Assets | | |
| Cash and due from banks | \$ 52,096 | \$ 45,134 |
| Interest-bearing balances with banks | 3,929 | 8,345 |
| Cash and cash equivalents | 56,025 | 53,479 |
| Securities available for sale | 371,581 | 414,270 |
| Mortgage loans held for sale | 2,714 | 1,643 |
| Loans, net of unearned income | 1,141,480 | 862,652 |
| Allowance for loan losses | (14,403) | (13,232) |
| Net loans | 1,127,077 | 849,420 |
| Premises and equipment, net | 33,998 | 31,696 |
| Intangible assets | 50,424 | 5,870 |
| Other assets | 65,726 | 58,836 |
| Total assets | \$1,707,545 | \$1,415,214 |
| Liabilities And shareholders' Equity | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 200,922 | \$ 154,079 |
| Interest-bearing | 1,117,755 | 979,852 |
| Total deposits | 1,318,677 | 1,133,931 |
| Federal funds purchased | 51,500 | 6,600 |
| Federal Home Loan Bank Advances | 109,756 | 90,987 |
| Junior subordinated debentures | 20,619 | 20,619 |
| Other borrowed funds | 9,672 | 7,366 |
| Other liabilities | 18,279 | 18,086 |
| Total liabilities | 1,528,503 | 1,277,589 |
| Shareholders' equity | | |
| Common stock, \$5 par value –15,000,000 shares authorized, 10,119,961 shares issued; 9,046,997 and 8,194,526 shares outstanding at December 31, 2004 and 2003, respectively | 50,600 | 46,589 |
| Treasury stock, at cost | (21,621) | (22,570) |
| Additional paid-in capital | 67,545 | 40,257 |
| Retained earnings | 81,720 | 70,342 |
| Accumulated other comprehensive income | 798 | 3,007 |
| Total shareholders' equity | 179,042 | 137,625 |
| Total liabilities and shareholders' equity | \$1,707,545 | \$1,415,214 |

See notes to consolidated financial statements.

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

| | Year ended December 31 | | |
|------------------------------------------------------------|------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2002 |
| Interest income | | | |
| Loans | \$ 60,411 | \$56,366 | \$61,379 |
| Securities: | | | |
| Taxable | 11,968 | 9,682 | 12,263 |
| Tax-exempt | 4,468 | 4,529 | 4,444 |
| Other | 177 | 233 | 332 |
| Total interest income | 77,024 | 70,810 | 78,418 |
| Interest expense | | | |
| Deposits | 17,382 | 18,818 | 24,034 |
| Borrowings | 4,414 | 2,959 | 2,491 |
| Total interest expense | 21,796 | 21,777 | 26,525 |
| Net interest income | 55,228 | 49,033 | 51,893 |
| Provision for loan losses | 1,547 | 2,713 | 4,350 |
| Net interest income after provision for loan losses | 53,681 | 46,320 | 47,543 |
| Noninterest Income | | | |
| Service charges on deposit accounts | 15,355 | 14,417 | 12,578 |
| Fees and commissions | 7,416 | 6,874 | 5,741 |
| Insurance commissions | 3,590 | 3,602 | 3,329 |
| Trust revenue | 2,147 | 1,748 | 1,512 |
| Securities (losses)/gains | (1,021) | 191 | 93 |
| BOLI income | 1,176 | 1,169 | 1,224 |
| Merchant discounts | 672 | 1,287 | 1,275 |
| Gains on sales of mortgage loans | 583 | 1,297 | 754 |
| Other | 2,369 | 1,308 | 1,467 |
| Total noninterest income | 32,287 | 31,893 | 27,973 |
| Noninterest expense | | | |
| Salaries and employee benefits | 33,406 | 29,486 | 29,400 |
| Data processing | 4,483 | 4,094 | 3,761 |
| Net occupancy | 3,845 | 3,382 | 3,107 |
| Equipment | 3,949 | 3,092 | 3,180 |
| Professional fees | 1,539 | 1,563 | 1,175 |
| Advertising | 1,999 | 1,957 | 1,077 |
| Intangible amortization | 1,015 | 493 | 493 |
| Other | 10,473 | 9,126 | 8,834 |
| Total noninterest expense | 60,709 | 53,193 | 51,027 |
| Income before income taxes | 25,259 | 25,020 | 24,489 |
| Income taxes | 6,816 | 6,839 | 6,819 |
| Income before cumulative effect of accounting change | 18,443 | 18,181 | 17,670 |
| Cumulative effect of accounting change | — | — | (1,300) |
| Net income | \$18,443 | \$18,181 | \$16,370 |
| Basic earnings per share | \$ 2.15 | \$ 2.20 | \$ 1.95 |
| Diluted earnings per share | \$ 2.14 | \$ 2.19 | \$ 1.94 |

See notes to consolidated financial statements

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

| | Common Stock | | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|------------------------------------------------------------------------------------------|--------------|----------|----------------|----------------------------|-------------------|-----------------------------------------------|-----------|
| | Shares | Amount | | | | | |
| Balance at January 1, 2002 | 8,556,462 | \$46,589 | \$(12,856) | \$39,850 | \$47,863 | \$ 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 (\$0.69 per share) | | | | | (5,826) | | (5,826) |
| Stock option compensation | | | | 80 | | | 80 |
| Treasury stock purchased | (194,921) | | (4,700) | | | | (4,700) |
| Balance at December 31, 2002 | 8,361,541 | 46,589 | (17,556) | 39,930 | 58,407 | 5,408 | 132,778 |
| Comprehensive income: | | | | | | | |
| Net income | | | | | 18,181 | | 18,181 |
| Other comprehensive income: | | | | | | | |
| Unrealized holding losses on securities available for sale (net of tax of (\$1,414)) | | | | | | (2,283) | (2,283) |
| Less reclassification adjustment for gains realized in net income (net of tax of (\$73)) | | | | | | (118) | (118) |
| Comprehensive income | | | | | 18,181 | (2,401) | 15,780 |
| Cash dividends (\$0.75 per share) | | | | | (6,227) | | (6,227) |
| Payment of fractional shares on stock dividend | | | | | (19) | | (19) |
| Stock option compensation | | | | 327 | | | 327 |
| Treasury stock purchased | (167,015) | | (5,014) | | | | (5,014) |
| Balance at December 31, 2003 | 8,194,526 | \$46,589 | \$(22,570) | \$40,257 | \$70,342 | \$ 3,007 | \$137,625 |
| Comprehensive income: | | | | | | | |
| Net income | | | | | 18,443 | | 18,443 |
| Other comprehensive income: | | | | | | | |
| Unrealized holding losses on securities available for sale (net of tax of (\$1,341)) | | | | | | (2,165) | (2,165) |
| Less reclassification adjustment for gains realized in net income (net of tax of (\$28)) | | | | | | (44) | (44) |
| Comprehensive income | | | | | 18,443 | (2,209) | 16,234 |
| Cash dividends (\$0.82 per share) | | | | | (7,065) | | (7,065) |
| Shares issued in Renasant acquisition | 802,094 | 4,011 | | 23,709 | | | 27,720 |
| Valuation of Renasant options and warrants | | | | 5,773 | | | 5,773 |
| Exercise of stock options | 95,309 | | 2,372 | (2,705) | | | (333) |
| Stock option compensation | | | | 511 | | | 511 |
| Treasury stock purchased | (44,932) | | (1,423) | | | | (1,423) |
| Balance at December 31, 2004 | 9,046,997 | \$50,600 | \$(21,621) | \$67,545 | \$81,720 | \$ 798 | \$179,042 |

See notes to consolidated financial statements.

The Peoples Holding Company
Consolidated Statements of Cash Flows

(In Thousands)

| | Year ended December 31 | | |
|-----------------------------------------------------------------------------------|------------------------|------------------|------------------|
| | 2004 | 2003 | 2002 |
| Operating activities | | | |
| Net income | \$ 18,443 | \$ 18,181 | \$ 16,370 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 1,547 | 2,713 | 4,350 |
| Net amortization of securities | 1,859 | 3,720 | 1,200 |
| Depreciation and amortization | 4,479 | 3,816 | 3,864 |
| Deferred income taxes | 1,450 | (216) | 233 |
| Funding of loans held for sale | (45,331) | (119,023) | (74,851) |
| Proceeds from sales of mortgage loans | 45,914 | 120,320 | 75,605 |
| Gain on sales of securities | (72) | (102) | (93) |
| Reserve for impairment on securities available for sale | 1,093 | — | — |
| Gain on sale of merchant business | (1,000) | — | — |
| Gains on sales of mortgage loans | (583) | (1,297) | (754) |
| Loss on sales of premises and equipment | 290 | 91 | 15 |
| Stock option compensation | 511 | 327 | 80 |
| (Increase) decrease in other assets | (372) | (1,690) | 757 |
| (Decrease) increase in other liabilities | (2,240) | (2,793) | 116 |
| Net cash provided by operating activities | 25,988 | 24,047 | 26,892 |
| Investing activities | | | |
| Purchases of securities available for sale | (113,217) | (286,651) | (219,319) |
| Proceeds from sales of securities available for sale | 66,526 | 39,479 | 46,870 |
| Proceeds from call/maturities of securities available for sale | 112,068 | 169,989 | 109,578 |
| Proceeds from sale of merchant business | 1,000 | — | — |
| Proceeds from sale of loans | 8,922 | — | — |
| Net increase in loans | (112,541) | (4,346) | (42,939) |
| Proceeds from sales of premises and equipment | 169 | 7 | 274 |
| Purchases of premises and equipment | (4,662) | (5,176) | (3,974) |
| Net cash paid in business combination | (23,674) | — | — |
| Net cash used in investing activities | (65,409) | (86,698) | (109,510) |
| Financing activities | | | |
| Net increase in noninterest-bearing deposits | 25,058 | 6,514 | 1,875 |
| Net (decrease) increase in interest-bearing deposits | (25,937) | 28,369 | 34,118 |
| Net increase (decrease) in short-term borrowings | 41,124 | 8,060 | (683) |
| Proceeds from Federal Home Loan Bank advances | 26,155 | 28,050 | 56,248 |
| Repayment of Federal Home Loan Bank advances | (18,153) | (23,371) | (11,085) |
| Proceeds from other borrowings | 1,484 | 21,029 | — |
| Repayment of other borrowings | (394) | (2) | — |
| Purchase of treasury stock | (1,423) | (5,014) | (4,700) |
| Cash paid for dividends | (7,065) | (6,246) | (5,826) |
| Cash received on exercise of options | 1,118 | — | — |
| Net cash provided by financing activities | 41,967 | 57,389 | 69,947 |
| Net increase (decrease) in cash and cash equivalents | 2,546 | (5,262) | (12,671) |
| Cash and cash equivalents at beginning of year | 53,479 | 58,741 | 71,412 |
| Cash and cash equivalents at end of year | \$ 56,025 | \$ 53,479 | \$ 58,741 |
| Supplemental disclosures | | | |
| Cash paid for interest | \$ 21,744 | \$ 22,649 | \$ 29,029 |
| Cash paid for income taxes | 6,748 | 6,415 | 7,962 |
| Transfers of loans to other real estate | 1,081 | 1,675 | 3,826 |

See notes to consolidated financial statements.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies

(In Thousands)

Nature of Operations: The Peoples Holding Company (the “Company”) offers a diversified range of financial and insurance services to its retail and commercial customers through The Peoples Bank & Trust Company (a Mississippi community bank); Renasant Bank (a Tennessee community bank); and The Peoples Insurance Agency, Inc. (an insurance agency). The Peoples Bank & Trust Company and Renasant Bank of Tennessee are collectively referred to as the “Banks.” The Company has full service offices located throughout north Mississippi and southwest Tennessee.

On December 16, 2004, the Company announced that the board of directors of The Peoples Bank & Trust Company approved a plan to change the name of The Peoples Bank & Trust Company to Renasant Bank and the name of Renasant Bank to Renasant Bank of Tennessee. The name changes were effective on February 1, 2005. As such, The Peoples Bank & Trust Company is referred to as Renasant Bank and Renasant Bank is referred to as Renasant Bank of Tennessee throughout the remainder of the financial statements.

The board of directors of the Company also approved a plan to change the name of the Company from “The Peoples Holding Company” to “Renasant Corporation”. The change of the Company’s name is subject to shareholder approval at the annual meeting to be held April 19, 2005. If the shareholders of the Company do not approve the change of the Company’s name, the name will remain “The Peoples Holding Company” while the bank’s name will remain “Renasant Bank”.

Effective February 1, 2005, the Company also changed the name of “The Peoples Insurance Agency, Inc.” to “Renasant Insurance, Inc.” As such, The Peoples Insurance Agency, Inc. is referred to as Renasant Insurance throughout the remainder of the financial statements.

Consolidation: Accounting Research Bulletin No. 51 (“ARB 51”), Consolidated Financial Statements, requires a company’s consolidated financial statements to include subsidiaries in which the company has a controlling financial interest. The Company’s consolidated financial statements include accounts of Renasant Bank, Renasant Bank of Tennessee and Renasant Insurance Inc., all of which are wholly-owned by the Company. All intercompany balances and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

The voting interest approach defined in ARB 51 is not applicable in identifying controlling financial interests in entities that are not controllable through voting interests or in which the equity investors do not bear the residual economic risks. In such instances, Interpretation No. 46 (“FIN 46”), Consolidation of Variable Interest Entities (“VIE”), indicates when a company should include in its financial statements the assets, liabilities and activities of another entity. In general, a VIE is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIEs activities or entitles it to receive a majority of the entity’s residual returns or both. A company that consolidates a VIE is called the primary beneficiary of that entity. The Company is not the primary beneficiary of such an entity.

The Company has one special-purpose entity (“SPE”), a securitization trust, to deliver its funding sources. SPEs are not operating entities, generally have no employees, and usually have a limited life. The basic SPE structure involves the Company transferring assets to the SPE. The SPE funds the purchase of those assets by issuing asset-backed securities to investors. The legal documents governing the SPE describe how the cash received on the assets held in the SPE must be allocated to the investors and other parties that have rights to these cash flows. The Company assets held in the SPE must be allocated to the investors and other parties that have rights to these cash flows. The Company structured the SPE to be bankruptcy remote, thereby insulating investors from the impact of the creditors of other entities, including the transferor of the assets.

Where the Company is a transferor of assets to an SPE, the assets sold to the SPE are no longer recorded on the balance sheet and the SPE is not consolidated when the SPE is a qualifying special-purpose entity (“QSPE”). Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“Statement”) No.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("Statement 140"), provides specific criteria for determining when a SPE meets the definition of a QSPE. In determining whether to consolidate non-qualifying SPEs where assets are legally isolated from the Company's creditors, the Company considers such factors as the amount of third-party equity, the retention of risks and rewards, and the extent of control available to third parties. The Company's trust meets the applicable SPE criteria under Statement 140, and accordingly, is not consolidated on the balance sheet. Further discussion regarding the securitization trust is included in Note H.

Business Combinations: 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. The financial condition and results of operations of entities acquired using the purchase method are included in the Company's financial statements from the date the acquisition is completed.

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: Debt securities are classified as held to maturity when purchased if management has the intent and ability to hold the securities to maturity. The Company has no held to maturity securities. 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 in accumulated other comprehensive income within shareholders' equity. Presently, the Company has no intention of establishing a trading classification.

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 also 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.

Management periodically reviews the security portfolio for impairment based upon a number of factors, including but not limited to, length of time and extent to which the market value has been less than cost, the likelihood of the security's ability to recover any decline in its market value, financial condition of the underlying issuer, ability of the issuer to meet contractual obligations, and ability to retain the security for a period of time sufficient to allow for recovery in market value.

Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party.

Mortgage Loans Held for Sale: At December 31, 2004 and 2003, 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 separately on the balance sheet. Loans to be sold are locked in at the contractual rate upon closing, thereby eliminating any interest rate risk for the Company. Gains and losses are realized at the time consideration is received and all other criteria for sales treatment have been met. These gains and losses are classified under the caption "Gains on sales of mortgage loans" on the statement of income.

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. The Banks defer certain nonrefundable loan origination fees as well as the direct costs of originating or acquiring loans. The deferred fees and costs are then amortized on a straight-line basis over the term of the note for all loans with payment schedules. Those loans with

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

no payment schedule are amortized using the interest method. The amortization of these deferred fees is presented as an adjustment to the yield on loans. Interest income is accrued on the unpaid principal balance. Loan commitment fees are recognized in the period the commitments are granted.

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.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to be probable 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.

Before funds are advanced on consumer and commercial loans below certain dollar thresholds, loans are reviewed and scored by our underwriters. Lending personnel classify all loans into risk grades, which are assigned based on the scoring of the loans that are funded. These grades are continuously updated and used in the calculation of the adequacy of the allowance for loan losses. Loan grades range between 1 and 9, with 1 being loans with the least credit risk. Loan review personnel monitor the grades assigned to loans through periodic examination. Allowance factors established by management are multiplied by loan balances for each grade to determine the amount needed in the allowance for loan losses. The allowance factors are established based on our historical 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 estimated net realizable value.

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.

The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated credit losses for specifically identified loans as well as probable losses inherent in the loan portfolio. Management and the internal loan review staff evaluate the adequacy of the allowance for loan losses calculation quarterly. The allowance for loan losses is evaluated based on a continuing assessment of problem loans, the types of 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.

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. The annual provisions for depreciation and amortization have been computed primarily using estimated lives of forty years for premises, seven years for furniture and equipment, and three to five years for computer equipment. Leasehold improvements are amortized over the period of the leases or the estimated useful lives of the improvements, whichever is shorter.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

Other Real Estate: Other real estate of \$2,324 and \$1,805 at December 31, 2004 and 2003, 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 mortgage servicing rights for each stratum exceed the current fair value. Impairment, if any, is recognized as a reduction of noninterest income. During 2004, we sold the portfolio of mortgage loans which we were servicing and eliminated the unamortized balance of the mortgage servicing rights. Mortgage servicing rights were \$284 at December 31, 2003.

Goodwill and Intangible Assets: Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. 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 finite lives are amortized over their estimated lives, not to exceed 10 years.

Bank-Owned Life Insurance: Bank-owned life insurance ("BOLI") is an institutionally-priced insurance product that is specifically designed for purchase by insured depository institutions. BOLI is a life insurance policy purchased by the Banks on certain employees, with the Banks being listed as the primary beneficiaries. The carrying value of BOLI is recorded at the cash surrender value of the policies, net of any applicable surrender charges. Changes in the value of the cash surrender value of the policies are reflected under the caption "BOLI income" on the statement of income.

Insurance Agency Revenues: The Company's insurance agency is a full-service insurance agency offering all lines of commercial and personal insurance through major third-party insurance carriers. Commissions and fees are recognized when earned based on contractual terms and condition of insurance policies with the insurance carriers. Contingency fee income paid by the insurance carriers is recognized upon receipt.

Trust and Financial Services Revenues: The Company offers trust services as well as various alternative investment products, including annuities and mutual funds. Trust revenues are recognized on the accrual basis in accordance with the contractual terms of the trust. Commissions and fees from the sale of annuities and mutual funds are recognized when earned based on contractual terms with the third-party broker dealer.

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 subsidiaries file a consolidated federal income tax return. The Banks provide for income taxes on a separate-return basis and remit to the Company amounts determined to be currently payable.

Derivative Instruments and Hedging Activities: The Company enters into mortgage loan commitments with its customers. Under the mortgage loan commitments, interest rates for a mortgage loan may be locked into for up to thirty days with the customer. Once a mortgage loan commitment is entered into with a customer, the Company enters into a sales agreement with an investor in the secondary market to sell such loan on a "best efforts" basis. As such, the Company does not incur risk if the mortgage loan commitment in the pipeline fails to close. Mortgage loan commitments are derivatives, however, they do not qualify for hedge accounting under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement 133"), as amended. Accordingly, the mortgage loan commitments are recorded at fair value and changes are recorded in earnings. The market value of the mortgage loan commitments are based on readily available market values, obtained in the open market from

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

mortgage investors. These market values reflect the values of mortgage loans having similar term and characteristics to the mortgage loan commitments entered into by the Company. Gains and losses arising from the valuation of the mortgage loan commitments are reflected under the caption "Gains on sales of mortgage loans" on the statement of income. The Company recorded a gain of \$16 for the year ended December 31, 2004 associated with the valuation of the mortgage loan commitments.

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.

Stock-Based Compensation: In 2002, the Company adopted the fair value method of recording stock options under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). Compensation expense for option awards are determined based on the estimated fair value of the award at the date of grant and recognized in the statement of income over the option's vesting period. Stock option expense for the years ended December 31, 2004, 2003 and 2002 was \$511, \$327 and \$80, respectively.

Earnings Per Common Share: Earnings per common share are obtained by dividing net income available to common shareholders by weighted-average outstanding shares of common stock. The diluted calculation of earnings per common share is obtained by dividing net income by the weighted-average outstanding shares of common stock adjusted for effects of stock options. See Note S, "Net Income Per Share", for the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations. Prior period share and per share data have been restated to reflect a three-for-two stock split effected in the form of a share dividend on December 1, 2003.

Sale of Merchant Card Servicing Business: On June 1, 2004, we sold our interest in and rights to future revenue on credit card merchant agreements involving point-of-sale based credit card, debit card and other card-based transaction processing services, electronic payment and settlement services to Nova Information Systems, Inc. ("Nova"). The sale involved approximately 1,000 credit card merchant processing accounts along with an insignificant amount of hardware consisting of approximately 150 credit card terminals and printers. In connection with the sale, Nova assumed financial liability for merchant transactions from the date of the sale. We will no longer continue to receive merchant discount revenue. We will receive referral fees from Nova, although such fees will likely be significantly less than our merchant discount revenue. Revenue from merchant card servicing is shown under the caption "Merchant discounts" on the income statement and was \$672, \$1,287 and \$1,275 for the years ended December 31, 2004, 2003 and 2002. In connection with the sale of the merchant card servicing business, we recognized a \$1,000 gain. This gain is included under the caption "Other" in the noninterest income section on the income statement.

Impact of Recently-Issued Accounting Standards: In April 2002, the FASB issued Statement 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 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 on the results of operation, financial position or liquidity of the Company.

In July 2002, the FASB issued Statement 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 applied to all exit or disposal activities initiated after December 31, 2002. The adoption of the provisions of Statement 146 did not have a material impact on the financial results of the Company.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

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 significantly changed the accounting for, and disclosure of, guarantees. The Interpretation requires certain guarantees to be recorded at fair value, which is different from the previous practice, which was generally to record a liability only when a loss was probable and reasonably estimable, as those terms were defined in the FASB Statement No. 5, “Accounting for Contingencies”. The Interpretation also requires a guarantor to make significant disclosures, even when the likelihood of making any payments under the guarantee is remote, which is another change from previous practice. The Interpretation applied to public and non-public entities, and its disclosure requirements were effective for financial statements of interim or annual periods ending after December 15, 2002. The Interpretation’s initial recognition and initial measurement provisions were 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 is not 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 No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123” (“Statement 148”). Statement 148 amends 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 April 2003, the FASB issued Statement No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“Statement 149”). Statement 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. Statement 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. In addition, the provisions of Statement 149, with certain exceptions, are required to be applied prospectively. The implementation of Statement 149 did not have an impact on the financial condition or results of operations of the Company. Management does not believe the provisions of this standard will have a material impact on results of future operations.

On May 15, 2003, the FASB issued Statement No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“Statement 150”). Statement 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Statement 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise became effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of Statement 150 did not have an impact on the financial position or results of operations of the Company.

FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (“FIN 46”) was issued in January 2003. It applied in the first fiscal year or interim period beginning after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. The Company adopted FIN 46 in 2003.

The Company issued \$20 million of junior subordinated debentures in 2003. Issuer trusts used for issuing trust preferred securities have been historically consolidated by their parent companies and trust preferred securities have been treated as eligible for “Tier 1” regulatory capital treatment by bank holding companies under Federal Reserve Board rules and regulations. However, FIN 46 required the Company to not consolidate the issuer trust. The Company continues to treat the junior subordinated debentures as Tier 1 regulatory capital, as currently allowed by Federal Reserve Board rules and regulations. The Federal Reserve Board recently issued new guidance that restricts the amount of these debentures that are includable in Tier 1 capital. The new guidance, which becomes effective in the first quarter of 2007, does not impact the amount of debentures the Company currently includes in Tier 1 capital.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

In December 2003, the FASB issued a revision to Statement No. 132, "Employers' Disclosures about Pensions and Other Post-Retirement Benefits". The revision retains the disclosures required by the original standard and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit costs of defined benefit pension and post-retirement plans. In addition, the revised standard requires interim period disclosures of the components of net periodic benefit costs. The required disclosures of the revised standard are provided in Note L, "Employee Benefits and Deferred Compensation Plans".

In December 2003, the AICPA issued Statement of Position 03-3 "Accounting for Certain Loans and Debt Securities Acquired in a Transfer" ("SOP 03-3"). SOP 03-3 prohibits the carryover of an allowance for loan losses on certain loans acquired in a purchase business combination. Increases in expected cash flows to be collected from the contractual cash flows will be recognized as an adjustment of the loan's yield over its remaining life, while decreases in expected cash flows will be recognized as an impairment. This accounting guidance will be effective for loans acquired in fiscal years subsequent to December 15, 2004. The Company is currently evaluating the impact of this new accounting standard on its financial condition and results of operations as the guidance relates to the loans acquired in connection with the acquisition of Heritage Financial Holding Corporation.

In December 2003, President Bush signed into law a bill that expands Medicare benefits, primarily adding a prescription drug benefit for Medicare-eligible retirees beginning in 2006. The law also provides a federal subsidy to companies sponsoring postretirement benefit plans that provide prescription drug coverage. FASB Staff Position ("FSP") 106-1, "Accounting and Disclosure Requirements Related to the new Medicare Prescription Drug, Improvement and Modernization Act of 2003" permits deferral of recognition of the new Medicare provisions' impact due to lack of specific authoritative guidance on accounting for the federal subsidy. The Company has elected to defer accounting for the effects of this new legislation until specific authoritative guidance is issued. Accordingly, the postretirement benefit obligations and the net periodic costs reported in this report do not reflect the impact of this new legislation. The accounting guidance could potentially require changes to previously reported financial data. The adoption of this standard is not expected to have a material impact on results of operation, financial position, or liquidity.

In March 2004, the Emerging Issues Task Force ("EITF") released Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and cost method investments. The basic model developed to evaluate whether an investment within the scope of EITF 03-1 is other-than-temporarily impaired involves a three-step process, which includes:

- determining whether an investment is impaired (fair value less than cost),
- evaluating whether the impairment is other-than-temporary, and
- if other-than-temporary, requiring recognition of an impairment loss equal to the difference between the investment's cost and its fair value.

The three-step model used to determine other-than-temporary impairments shall be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. In October 2004, FASB issued FSP 03-1-1, *Effective Date of Paragraphs 10-20 of EITF 03-1, The Meaning of Other Than Temporary Impairment*, delaying the effective date for the recognition and measurement guidance of EITF 03-1 until certain implementation issues are addressed and a final FSP providing implementation guidance is issued. The final FSP providing implementation guidance is expected to be issued in 2005. The required disclosures of EITF 03-1 remain in effect and are provided in Note B, "Securities".

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies (Continued)

In March 2004, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) 105, “Application of Accounting Principles to Loan Commitments”, which provides registrants the SEC’s view on recording the fair value of loan commitments. Under SAB 105, the fair value of loan commitments that are required to follow derivative accounting under Statement 133, should *not* consider the expected future cash flows related to the associated servicing of the future loan. The staff believes that incorporating expected future cash flows related to the associated servicing of the loan essentially results in the immediate recognition of a servicing asset, which is only appropriate once the servicing asset has been contractually separated from the underlying loan by sale or by securitization of the loan with servicing retained. The provisions of SAB 105 must be applied to loan commitments accounted for as derivatives that are entered into after March 31, 2004. The application of this guidance did not have a material impact on the Company’s financial condition or results of operation.

In December 2004, FASB issued a revision to Statement 123 (“Statement 123R”). The newly revised guidance establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. The provisions of this statement will become effective July 1, 2005 for all equity awards granted after the effective date. In 2002, the Company adopted the provisions of Statement 123 and began recognizing compensation expense in the income statement, based on the estimated fair value of all awards granted to employees. Statement 123R requires an entity to recognize compensation expense based on an estimate of the number of awards expected to actually vest, exclusive of awards expected to be forfeited. Currently, the Company recognizes forfeitures as they occur. The adoption of this standard is not expected to have a material effect on the Company’s financial condition or results of operations.

Note B – Securities

(In Thousands)

The amortized cost and fair value of securities available for sale are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------------------------------------------------|-------------------|---------------------------|----------------------------|------------------|
| December 31, 2004 | | | | |
| Obligations of other U. S. Government agencies and corporations | \$ 75,139 | \$ 67 | \$ (459) | \$ 74,747 |
| Mortgage-backed securities | 173,077 | 1,304 | (2,518) | 171,863 |
| Obligations of states and political subdivisions | 101,399 | 3,119 | (408) | 104,110 |
| Corporate bonds | 503 | — | — | 503 |
| Trust preferred securities | 3,027 | 189 | — | 3,216 |
| Other equity securities | 17,142 | — | — | 17,142 |
| | <u>\$370,287</u> | <u>\$ 4,679</u> | <u>\$ (3,385)</u> | <u>\$371,581</u> |
| December 31, 2003 | | | | |
| Obligations of other U. S. Government agencies and corporations | \$ 88,100 | \$ 1,040 | \$ (326) | \$ 88,814 |
| Mortgage-backed securities | 207,046 | 1,820 | (770) | 208,096 |
| Obligations of states and political subdivisions | 92,581 | 3,894 | (86) | 96,389 |
| Corporate bonds | — | — | — | — |
| Trust preferred securities | 6,782 | 188 | (5) | 6,965 |
| Other equity securities | 14,655 | — | (649) | 14,006 |
| | <u>\$409,164</u> | <u>\$ 6,942</u> | <u>\$ (1,836)</u> | <u>\$414,270</u> |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note B – Securities (continued)

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|----------------------------------------------------------------|-------------------|---------------------------|----------------------------|------------------|
| December 31, 2002 | | | | |
| 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 |
| Corporate bonds | — | — | — | — |
| Trust preferred securities | 6,792 | 49 | (2) | 6,839 |
| Other equity securities | 9,409 | — | (242) | 9,167 |
| | <u>\$335,599</u> | <u>\$ 9,640</u> | <u>\$ (458)</u> | <u>\$344,781</u> |

The following table presents the age of gross unrealized losses and fair value by investment category at December 31, 2004:

| | Less Than 12 Months | | 12 Months or More | | Total | |
|-----------------------------------------------------------------|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Obligations of other U. S. government agencies and corporations | \$ 992 | \$ (8) | \$ 37,785 | \$ (451) | \$ 38,777 | \$ (459) |
| Mortgage-backed securities | — | — | 105,965 | (2,518) | 105,965 | (2,518) |
| Obligations of states and political subdivisions | 1,296 | (9) | 18,970 | (399) | 20,266 | (408) |
| Total | <u>\$ 2,288</u> | <u>\$ (17)</u> | <u>\$ 162,720</u> | <u>\$ (3,368)</u> | <u>\$ 165,008</u> | <u>\$ (3,385)</u> |

Management does not believe unrealized losses in our securities portfolio, individually or in the aggregate, as of December 31, 2004, represent an other-than-temporary impairment. The unrealized losses are primarily a result of changes in interest rates and will not prohibit the Company from receiving its contractual interest and principal payments. The Company has both the intent and ability to hold the securities contained in the table above for the time necessary to recover the unrealized loss.

The Company holds Fannie Mae (“FNMA”) and Freddie Mac (“FHLMC”) preferred stock in its security portfolio. These securities pay a dividend based on treasury rates and reset every two years. During the fourth quarter of 2004, these agencies issued new securities as part of a settlement reached with federal regulatory agencies. These newly issued securities had terms which were more favorable than the securities the Company holds. Prior to the issuance, the fair market value of the securities the Company holds were below their carrying value due to increases in interest rates. Although the securities the Company holds are rated AA- and Aa3 by Standard & Poor and Moody’s, respectively, the Company concluded the decline in the market value of the securities, in light of the new security issuance, was other-than-temporary. Thus, the Company recorded an \$1,093 non-cash impairment charge during the fourth quarter of 2004. The impairment is shown in the income statement line item “Securities (losses)/gains”.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note B – Securities (continued)

The amortized cost and fair value of securities available for sale at December 31, 2004, 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.

| | Amortized Cost | Fair Value |
|----------------------------------------|-------------------|------------------|
| Securities Available for Sale | | |
| Due in one year or less | \$ 10,772 | \$ 10,830 |
| Due after one year through five years | 60,067 | 60,952 |
| Due after five years through ten years | 87,653 | 88,918 |
| Due after ten years | 18,549 | 18,660 |
| Mortgage-backed securities | 173,077 | 171,863 |
| Trust preferred stock | 3,027 | 3,216 |
| Other equity securities | 17,142 | 17,142 |
| | <u>\$370,287</u> | <u>\$371,581</u> |

Gross gains on sales of securities available for sale for 2004, 2003, and 2002, were \$462, \$237, and \$179, respectively. Gross losses on sales of securities available for sale for 2004, 2003, and 2002, were \$390, \$46, and \$86, respectively.

At December 31, 2004 and 2003, securities with a carrying value of approximately \$145,696 and \$164,596, respectively, were pledged to secure government, public, and trust deposits. Securities with a carrying value of \$9,986 were pledged as collateral for short-term borrowings at December 31, 2004.

Note C - Loans and Allowance for Loan Losses

(In Thousands)

Loans are summarized as follows:

| | December 31 | |
|-----------------------------------------|--------------------|------------------|
| | 2004 | 2003 |
| Commercial, financial, and agricultural | \$ 175,571 | \$ 140,149 |
| Lease financing | 11,755 | 13,238 |
| Real estate-construction | 96,404 | 50,848 |
| Real estate-1-4 family mortgage | 375,698 | 293,097 |
| Real estate-commercial mortgage | 395,048 | 280,097 |
| Consumer | 87,961 | 86,421 |
| | <u>1,142,437</u> | <u>863,850</u> |
| Gross loans | 1,142,437 | 863,850 |
| Unearned income | (957) | (1,198) |
| | <u>1,141,480</u> | <u>862,652</u> |
| Loans, net of unearned income | 1,141,480 | 862,652 |
| Allowance for loan losses | (14,403) | (13,232) |
| | <u>\$1,127,077</u> | <u>\$849,420</u> |
| Net loans | <u>\$1,127,077</u> | <u>\$849,420</u> |

During the fourth quarter of 2004, the Company sold approximately \$10,465 of commercial and commercial real estate loans. One loan with a balance of \$640 was classified as nonperforming at the time it was sold. The credit quality of the other loans, while not classified as nonperforming, had declined below the Company's desired credit standards. As such, the Company had established a reserve in the allowance for loan losses for these loans of \$2,246. No gain or loss was recognized at the time of sale, although, the Company charged-off \$1,634 against the allowance for loan losses in connection with the sale of these loans. The excess of the reserve in the allowance for loan losses over the amount charged-off was reallocated to the remainder of the loan portfolio which reduced the provision for loan losses charged to operations during the fourth quarter of 2004.

The Peoples Holding Company
Notes to Consolidated Financial Statements

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

Changes in the allowance for loan losses were as follows:

| | Year ended December 31 | | |
|--------------------------------------------|------------------------|----------|----------|
| | 2004 | 2003 | 2002 |
| Balance at beginning of year | \$13,232 | \$12,203 | \$11,354 |
| Addition from acquisition | 2,845 | — | — |
| Provision for loan losses | 1,547 | 2,713 | 4,350 |
| Loans charged-off | (3,617) | (2,043) | (4,167) |
| Recoveries of loans previously charged-off | 396 | 359 | 666 |
| Balance at end of year | \$14,403 | \$13,232 | \$12,203 |

At December 31, 2004 and 2003, nonaccrual loans totaled \$6,443 and \$4,624, respectively. Impaired loans recognized in conformity with FASB Statement No. 114, as amended by FASB Statement No. 118, were as follows:

| | December 31 | |
|---------------------------------------------------------------|-------------|---------|
| | 2004 | 2003 |
| Impaired loans with an allocated allowance for loan losses | \$8,848 | \$8,276 |
| Impaired loans without an allocated allowance for loan losses | 162 | — |
| Total impaired loans | \$9,010 | \$8,276 |
| Allocated allowance on impaired loans | \$2,786 | \$2,630 |

| | Year ended December 31 | | |
|--------------------------------------------------------------------------|------------------------|---------|---------|
| | 2004 | 2003 | 2002 |
| Average recorded investment in impaired loans | \$8,643 | \$6,092 | \$4,485 |
| Interest income recognized using the accrual basis of income recognition | \$ 276 | \$ 291 | \$ 318 |
| Interest income recognized using the cash-basis of income recognition | \$ 90 | \$ 154 | \$ — |

Certain executive officers and directors of the Banks and their associates are customers of and have other transactions with, the Banks. 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 \$16,569 and \$15,600 at December 31, 2004 and 2003, respectively. During 2004, \$3,976 of new loans were made and payments received totaled \$3,007.

Note D – Premises and Equipment

(In Thousands)

Bank premises and equipment accounts are summarized as follows:

| | December 31 | |
|--------------------------|-------------|-----------|
| | 2004 | 2003 |
| Premises | \$ 37,803 | \$ 34,475 |
| Leasehold improvements | 473 | — |
| Capital leases | 410 | 596 |
| Furniture and equipment | 11,829 | 11,870 |
| Computer equipment | 6,655 | 8,935 |
| Auto | 142 | 142 |
| Total | \$ 57,312 | \$ 56,018 |
| Accumulated depreciation | (23,314) | (24,322) |
| Net | \$ 33,998 | \$ 31,696 |

Depreciation expense was \$2,806, \$2,671 and \$2,734 at December 31, 2004, 2003 and 2002, respectively.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note E – Deposits
(In Thousands)

Following is a summary of deposits as of December 31, 2004 and 2003:

| | 2004 | 2003 |
|---------------------------|---------------------|---------------------|
| Non-interest bearing | \$ 200,922 | \$ 154,079 |
| Interest bearing checking | 42,125 | 15,150 |
| Money market and savings | 508,776 | 441,046 |
| Time deposits | 566,854 | 523,656 |
| Total | \$ 1,318,677 | \$ 1,133,931 |

At December 31, 2004, the approximate scheduled maturities of time deposits are as follows:

| | |
|---------------------|------------------|
| 2005 | \$360,120 |
| 2006 | 105,588 |
| 2007 | 75,990 |
| 2008 | 20,530 |
| 2009 | 4,038 |
| 2010 and thereafter | 588 |
| Total | \$566,854 |

The aggregate amount of time deposits in denominations of \$100 or more at December 31, 2004 and 2003 was \$197,118 and \$184,001, respectively.

Certain executive officers and directors had amounts on deposit with the Banks of approximately \$8,093 at December 31, 2004.

Note F – Other Borrowed Funds
(In Thousands)

Other borrowed funds at December 31 are summarized as follows:

| | 2004 | 2003 |
|---------------------------------------------|-----------------|-----------------|
| Treasury, tax and loan notes | \$ 3,183 | \$ 6,958 |
| Federal funds purchased | 51,500 | 6,600 |
| Securities sold under repurchase agreements | 6,097 | — |
| Total other borrowed funds | \$60,780 | \$13,558 |

| | Average Balances | | Cost of Funds | |
|---------------------------------------------|------------------|----------------|---------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Treasury, tax and loan notes | \$ 1,427 | \$1,623 | 1.10% | 0.83% |
| Federal funds purchased | 20,459 | 1,007 | 1.83 | 1.80 |
| Securities sold under repurchase agreements | 3,027 | — | 1.00 | — |
| Total other borrowings | \$24,913 | \$2,630 | 1.69% | 1.20% |

The Company maintains lines of credit with correspondent banks totaling \$35,000 at December 31, 2004. These are unsecured lines of credit maturing at various times within the next twelve 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. 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's need for funds.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note G – Long-Term Debt
(In Thousands)

Long-Term Debt at December 31 is summarized as follows:

| | 2004 | 2003 |
|---------------------------------|-------------------|-------------------|
| Federal Home Loan Bank Advances | \$ 109,756 | \$ 90,987 |
| Junior subordinated debentures | 20,619 | 20,619 |
| Capitalized lease obligation | 392 | 408 |
| Total long-term debt | \$ 130,767 | \$ 112,014 |

Long-term advances from the Federal Home Loan Bank (“FHLB”) had maturities ranging from 2005 to 2020 with weighted-average interest rates of 3.30% and 3.22% at December 31, 2004 and 2003, respectively. These advances had a combination of fixed and floating rates which range from 1.87% to 7.93% at December 31, 2004. The Company had availability on unused lines of credit with the FHLB of \$226,441 at December 31, 2004. These advances are collateralized by a pledge of a blanket lien on the Company’s mortgage loans.

The aggregate stated maturities, in thousands, of long-term debt outstanding at December 31, 2004, are summarized as follows:

| | |
|--------------|-------------------|
| 2005 | \$ 45,832 |
| 2006 | 14,028 |
| 2007 | 6,117 |
| 2008 | 29,531 |
| 2009 | 3,401 |
| Thereafter | 31,858 |
| Total | \$ 130,767 |

Note H – Junior Subordinated Debentures Owed to Unconsolidated Subsidiary Trusts and Corporation-Obligated Mandatorily Redeemable Capital Securities of Subsidiary Trusts Holding Solely Debentures of the Company
(In Thousands)

On December 17, 2003, the Company sponsored PHC Statutory Trust I with U. S. Bank National Association, of which 3% of the common equity is owned by the Company. The trust was formed for the purpose of issuing corporation-obligated mandatorily redeemable capital securities to third-party investors and investing the proceeds from the sale of such capital securities solely in floating rate junior debentures of the Company. The debentures held by the trust are the sole assets of the trust. Distributions on the capital are payable quarterly at a rate per annum equal to the interest rate being earned by the trust on the debentures held by the trust. The annual rate is equal to the 3-Month LIBOR plus 2.85%. The rate in effect at December 31, 2004 on the subordinated debentures was 5.35%. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into an agreement which fully and unconditionally guarantees the capital securities subject to the terms of the guarantee. The debentures held by U. S. Bank National Association capital trust are callable, in whole or in part, in 2008, and are due, in whole, in 2033.

FASB Interpretation No. 46 raised questions about whether the debentures issued by an unconsolidated subsidiary trust will continue to be included in Tier 1 capital. The Federal Reserve Board issued new guidance in March 2005 providing more strict quantitative limits on the amount of securities, similar to the junior subordinated debentures issued by the Company, that are includable in Tier 1 capital. The new guidance which becomes effective in March 2009 is not expected to impact the amount of debentures the Company includes in Tier 1 capital.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note I – 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, etc.) 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, 2004, were approximately \$219,087 and \$15,468 respectively, compared to December 31, 2003, which were approximately \$132,181 and \$10,042, respectively.

Various claims and lawsuits, incidental to the ordinary course of business, are pending against the Company and the Banks. 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- and off-balance sheet financial instruments.

Note J - 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.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2004 and 2003 are as follows:

| | December 31 | |
|-------------------------------------------------------|-----------------|----------------|
| | 2004 | 2003 |
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 5,524 | \$5,438 |
| Deferred compensation | 2,923 | 2,592 |
| Other | 1,749 | 602 |
| Total deferred tax assets | 10,196 | 8,632 |
| Deferred tax liabilities: | | |
| Pension | 1,382 | 1,052 |
| Net unrealized gains on securities available for sale | 495 | 2,099 |
| Depreciation | 1,908 | 819 |
| Other | 3,245 | 1,454 |
| Total deferred tax liabilities | 7,030 | 5,424 |
| Net deferred tax assets | \$ 3,166 | \$3,208 |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note J - Income Taxes (continued)

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

| | Year ended December 31 | | |
|-----------------|------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2002 |
| Current | | | |
| Federal | \$ 7,995 | \$ 6,659 | \$ 5,786 |
| State | 467 | 617 | 800 |
| | <u>8,462</u> | <u>7,276</u> | <u>6,586</u> |
| Deferred | | | |
| Federal | (1,431) | (380) | 204 |
| State | (215) | (57) | 29 |
| | <u>(1,646)</u> | <u>(437)</u> | <u>233</u> |
| | <u>\$ 6,816</u> | <u>\$ 6,839</u> | <u>\$ 6,819</u> |

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 | | |
|------------------------------------------|------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2002 |
| Tax at U.S. statutory rate | \$ 8,841 | \$ 8,757 | \$ 9,306 |
| Tax-exempt interest income | (1,680) | (1,714) | (2,312) |
| State income tax, net of federal benefit | 287 | 306 | 505 |
| Dividends received deduction | (38) | (53) | (60) |
| Other items-net | (594) | (457) | (620) |
| | <u>\$ 6,816</u> | <u>\$ 6,839</u> | <u>\$ 6,819</u> |

Income tax (benefit) expense related to securities gains or losses was \$(391), \$73 and \$36 for the years ended December 31, 2004, 2003 and 2002, respectively.

Note K - Restrictions on Cash, Bank Dividends, Loans, or Advances

(In Thousands)

The Banks are required to maintain average balances with the Federal Reserve. The average amount of those balances for the year ended December 31, 2004, was approximately \$2,074.

The Company's ability to pay dividends to its shareholders is substantially dependent on the transfer from the Banks of sufficient funds to pay such dividends. Certain restrictions exist regarding the ability of Renasant Bank and Renasant Bank of Tennessee 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 Renasant Bank paying dividends, which are limited to earned surplus in excess of three times capital stock. At December 31, 2004, the unrestricted surplus for Renasant Bank was approximately \$112,759. The Tennessee Department of Financial Institutions limits dividends to the two previous years' earnings, provided that amount is available within retained earnings and capital does not drop below 7% of assets. At December 31, 2004, Renasant Bank of Tennessee had \$2,458 available for dividends.

Federal Reserve regulations also limit the amount the Banks may loan to the Company unless such loans are collateralized by specific obligations. At December 31, 2004, the maximum amount available for transfer from the Banks to the Company in the form of loans was \$15,455. There were no loans outstanding from the Banks to the Company at December 31, 2004.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note L - Employee Benefit and Deferred Compensation Plans

(In Thousands Except Share Data)

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 \$575 and \$3,300 to the pension plan for the years 2003 and 2002, respectively. The Company did not make a contribution during 2004. The accumulated benefit obligation and the projected benefit obligation are the same for our Company since the benefits are frozen at 1996 levels.

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 premiums. 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 FASB Statement No. 106, "Employers' Accounting for Post-retirement 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, 2004, and for the year then ended.

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.

Information relating to the defined benefit pension and postretirement health and life plans as of December 31, 2004 and 2003 are as follows:

| | Pension Benefits | | Other Benefits | |
|------------------------------------------------|------------------|-----------------|-----------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Asset allocation | | | | |
| Cash and cash equivalents | 1% | 4% | | |
| U. S. government bonds | 11 | 21 | | |
| Other corporate bonds | 24 | 36 | | |
| Common corporate stocks | 64 | 39 | | |
| | <u>100%</u> | <u>100%</u> | | |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$15,732 | \$14,429 | \$ 972 | \$835 |
| Service cost | — | — | 66 | 55 |
| Interest cost | 962 | 953 | 69 | 59 |
| Plan participants' contributions | — | — | 54 | 44 |
| Actuarial gain | 534 | 1,067 | 405 | 73 |
| Benefits paid | (685) | (717) | (358) | (94) |
| Benefit obligation at end of year | <u>\$16,543</u> | <u>\$15,732</u> | <u>\$ 1,208</u> | <u>\$972</u> |
| Change in fair value of plan assets | | | | |
| Fair value of plan assets at beginning of year | \$15,947 | \$14,800 | | |
| Actual return on plan assets | 1,430 | 1,289 | | |
| Contribution by employer | — | 575 | | |
| Benefits paid | (685) | (717) | | |
| Fair value of plan assets at end of year | <u>\$16,692</u> | <u>\$15,947</u> | | |

The Peoples Holding Company
Notes to Consolidated Financial Statements

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

| | Pension Benefits | | Other Benefits | |
|-------------------------------------------------------|------------------|----------------|-----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Prepaid (accrued) benefits cost | | | | |
| Funded status | \$ 148 | \$ 216 | \$(1,208) | \$(972) |
| Unrecognized net actuarial gain | 5,604 | 5,629 | 746 | 378 |
| Unamortized prior service cost | 140 | 169 | 10 | 15 |
| Prepaid (accrued) benefit cost | \$5,892 | \$6,014 | \$ (452) | \$(579) |
| Weighted-average assumptions as of December 31 | | | | |
| Discount rate | 5.99% | 6.25% | 5.99% | 6.25% |
| Expected return on plan assets | 8.00% | 8.00% | N/A | N/A |

The plan expense for the defined benefit pension and postretirement health and life plans for the year ended December 31, 2004, 2003 and 2002 are as follows:

| | Pension Benefits | | | Other Benefits | | |
|---------------------------------------------------------|------------------|---------------|--------------|----------------|--------------|--------------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Components of net periodic benefit cost (income) | | | | | | |
| Service cost | \$ — | \$ — | \$ — | \$ 66 | \$ 55 | \$ 44 |
| Interest cost | 962 | 953 | 937 | 69 | 59 | 54 |
| Expected return on plan assets | (1,247) | (1,156) | (1,009) | — | — | — |
| Prior service cost recognized | 30 | 30 | 30 | 5 | 5 | 27 |
| Recognized gains | 377 | 322 | 58 | 37 | 25 | — |
| Net periodic benefit cost | \$ 122 | \$ 149 | \$ 16 | \$177 | \$144 | \$125 |

Future estimated benefit payments under the defined benefit pension plan and postretirement health and life plan are as follows:

| | Pension Benefits | Other Benefits |
|------------|------------------|----------------|
| 2005 | \$ 744 | \$ 104 |
| 2006 | 758 | 102 |
| 2007 | 811 | 115 |
| 2008 | 888 | 121 |
| 2009 | 925 | 124 |
| Thereafter | 5,644 | 581 |

The investment objective for the defined benefit plan is to achieve above average income and moderate long term growth. The strategy combines the Equity Income Strategy (approximately 60%) which generally invests in larger capitalization common stocks and the Intermediate Fixed Income Strategy (approximately 40%) which favors U.S. Government securities and investments in investment grade corporate bonds. It is management's intent to give the investment managers flexibility within the overall guidelines with respect to investment decisions and their timing. However, significant modifications of any previously approved investments or anticipated use of derivatives to execute investment strategies must be approved by management.

The expected long-term rate of return was estimated using market benchmarks for investment classes applied to the plan's target asset allocation. The expected return on investment classes was computed using a valuation methodology which projected future returns based on current equity valuations rather than historical returns. The Company does not anticipate making a contribution to the defined benefit pension plan in 2005.

The Peoples Holding Company
Notes to Consolidated Financial Statements

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

The Company previously maintained two defined contribution plans: a money purchase pension plan and a 401(k) plan. On December 31, 2004, the money purchase plan was merged into the Company's 401(k) Plan. The money purchase pension plan was a noncontributory pension plan. Under the money purchase plan, the Company contributed 5% of compensation for each participant annually into this plan. Expenses related to the money purchase pension plan were \$1,206, \$1,126 and \$965 in 2004, 2003, and 2002, respectively. The 401(k) plan is a contributory plan. Employees may contribute up to the IRS allowable limit 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 six months of service and is employed on the last day of the plan year. The Company's costs related to the 401(k) plan in 2004, 2003, and 2002 were \$749, \$793, and \$618, respectively.

The Company and Renasant Bank 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 its 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 in 2001.

The Company adopted the "Performance Based Reward" incentive compensation plan on 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 minimum income levels for all applicable profit centers and rewards employees on performance over that minimum income level. The expense associated with the plan for 2004, 2003, and 2002 was \$1,191, \$726, and \$2,620, 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 additional cost to 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 2004, 2003, and 2002 for the Employee Deferred Compensation Plan, inclusive of the salary deferrals, was \$583, \$580, and \$525, respectively. The expense recorded in 2004, 2003, and 2002 for the Directors Deferred Compensation Plan, inclusive of fee deferrals, was \$47, \$153, and \$168, respectively. There were no retainer deferrals for 2004, 2003, or 2002.

At December 31, 2004, 1,020,000 common shares were reserved for issuance for employee benefit plans.

During 2004, the Company repurchased approximately 45,000 shares. As of December 31, 2004, the Company had approximately 244,000 shares available for repurchase under an approved repurchase plan. 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. The Company has warrants outstanding to purchase 72,606 shares of its common stock (at an exercise price of \$8.95 per share). Such warrants were assumed in connection with the Renasant acquisition and expire in May 2009.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note L - 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:

| | 2004 Grant | 2003 Grant | 2002 Grant |
|-----------------------------|------------|------------|------------|
| Dividend yield | 2.21% | 2.55% | 2.59% |
| Expected volatility | 27% | 28% | 27% |
| Risk-free interest rate | 3.25% | 2.78% | 4.38% |
| Expected lives | 6 years | 6 years | 6 years |
| Weighted average fair value | \$ 8.07 | \$ 6.19 | \$ 6.10 |

We recorded compensation expense of \$511, \$327, and \$80 for the years ended December 31, 2004, 2003, and 2002, respectively, in relation to this plan.

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

| | 2004 | | 2003 | | 2002 | |
|----------------------------------|----------|------------------------------------------|---------|------------------------------------------|--------|------------------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 143,250 | \$ 25.01 | 61,500 | \$ 20.84 | 15,000 | \$ 12.70 |
| Granted | 88,500 | 33.35 | 81,750 | 28.15 | 46,500 | 23.47 |
| Assumed through acquisition | 104,139 | 12.18 | — | — | — | — |
| Exercised | (84,146) | 12.09 | — | — | — | — |
| Forfeited | — | — | — | — | — | — |
| Outstanding at end of year | 251,743 | \$ 26.95 | 143,250 | \$ 25.01 | 61,500 | \$ 20.84 |
| Exercisable at end of year | 93,243 | \$ 20.76 | 25,500 | \$ 19.25 | 5,000 | \$ 12.70 |

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

| Range of Exercise Prices | Options Outstanding | | | |
|-----------------------------|-----------------------|-------------------------------------------------------|-------------------------------------------|-----------------------|
| | Number Outstanding | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Number Exercisable |
| \$12.09 – \$18.13 | 34,993 | 7.67 | \$ 12.61 | 34,993 |
| 18.14 – 27.19 | 46,500 | 8.00 | 23.47 | 31,000 |
| 27.20 – 33.35 | 170,250 | 9.52 | 30.85 | 27,250 |
| | 251,743 | 8.98 | \$ 26.95 | 93,243 |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note M - Regulatory Matters
(In Thousands)

The Banks' are 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 Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Banks' 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 Banks 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, 2004, the Banks met all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the Federal Deposit Insurance Corporation ("FDIC") categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks 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 | | | |
|-----------------------------------|-------------|--------|------------|--------|
| | 2004 | | 2003 | |
| | Amount | Ratio | Amount | Ratio |
| The Company | | | | |
| Total Capital | \$ 162,225 | 13.61% | \$ 159,471 | 17.46% |
| Tier I Capital | 147,822 | 12.40% | 148,034 | 16.21% |
| Tier I Leverage | 147,822 | 8.97% | 148,034 | 10.85% |
| Renasant Bank | | | | |
| Total Capital | \$ 134,398 | 13.49% | \$ 134,633 | 14.80% |
| Tier I Capital | 122,769 | 12.32% | 123,239 | 13.55% |
| Tier I Leverage | 122,769 | 8.63% | 123,239 | 9.06% |
| Renasant Bank of Tennessee | | | | |
| Total Capital | \$ 19,816 | 10.18% | N/A | N/A |
| Tier I Capital | 17,379 | 8.93% | N/A | N/A |
| Tier I Leverage | 17,379 | 7.78% | N/A | N/A |

Note N – Segment Reporting
(In Thousands)

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.

The Company's internal reporting process is organized into four segments that account for the Company's principal activities: the delivery of financial services through its community banks in Mississippi (Renasant Bank); the delivery of financial services through its community banks in Tennessee (Renasant Bank of Tennessee); the delivery of financial services through its community banks in Alabama (Renasant Bank); and the delivery of insurance services through its insurance agencies (Renasant Insurance). Financial information about the Company's Alabama community bank segment is not included herein because these community banks were acquired effective January 1, 2005.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note N – Segment Reporting (continued)

In order to more closely match expenses with revenues at the community bank level, excluding Renasant Bank of Tennessee, which is a separately chartered bank, direct and indirect expenses and revenues are allocated to the segments based on various factors, including percentage of loans, percentage of deposits, full-time employees, number of accounts serviced and actual sales. 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.

The following tables provide financial information for our Mississippi community bank, Tennessee community bank and insurance segments. Other shown in the following table represents financial information of the holding company and eliminations which are necessary for purposes of reconciling to the consolidated amounts.

| | <u>Renasant Bank</u> | <u>Renasant Bank of Tennessee</u> | <u>Renasant Insurance</u> | <u>Other</u> | <u>Consolidated</u> |
|------------------------------------------------------|--------------------------|-------------------------------------------|-------------------------------|--------------|---------------------|
| At or for the year ended December 31, 2004: | | | | | |
| Net interest income | \$ 51,185 | \$ 4,553 | \$ 3 | \$ (513) | \$ 55,228 |
| Provision for loan losses | 1,505 | 42 | — | — | 1,547 |
| Noninterest income | 28,189 | 410 | 4,063 | (375) | 32,287 |
| Noninterest expense | 53,583 | 3,796 | 2,846 | 484 | 60,709 |
| Income before income taxes | 24,286 | 1,125 | 1,220 | (1,372) | 25,259 |
| Income tax expense | 6,666 | 424 | 279 | (553) | 6,816 |
| Net income (loss) | 17,620 | 701 | 941 | (819) | 18,443 |
| Total assets | 1,433,171 | 267,324 | 4,902 | 2,148 | 1,707,545 |
| Goodwill | 2,265 | 39,768 | 2,783 | — | 44,816 |
| At or for the year ended December 31, 2003: | | | | | |
| Net interest income | \$ 49,018 | \$ — | \$ 3 | \$ 12 | \$ 49,033 |
| Provision for loan losses | 2,713 | — | — | — | 2,713 |
| Noninterest income | 27,984 | — | 3,908 | 1 | 31,893 |
| Noninterest expense | 49,970 | — | 2,910 | 313 | 53,193 |
| Income before income taxes | 24,319 | — | 1,001 | (300) | 25,020 |
| Income tax expense | 6,758 | — | 208 | (127) | 6,839 |
| Net income (loss) | 17,561 | — | 793 | (173) | 18,181 |
| Total assets | 1,390,780 | — | 4,923 | 19,511 | 1,415,214 |
| Goodwill | 2,265 | — | 2,783 | — | 5,048 |
| At or for the year ended December 31, 2002: | | | | | |
| Net interest income | \$ 51,857 | \$ — | \$ 7 | \$ 29 | \$ 51,893 |
| Provision for loan losses | 4,350 | — | — | — | 4,350 |
| Noninterest income | 24,208 | — | 3,764 | 1 | 27,973 |
| Noninterest expense | 47,504 | — | 3,156 | 367 | 51,027 |
| Income before income taxes | 24,211 | — | 615 | (337) | 24,489 |
| Income tax expense | 6,809 | — | 146 | (136) | 6,819 |
| Income before cumulative effect of accounting change | 17,402 | — | 469 | (201) | 17,670 |
| Cumulative effect of accounting change | — | — | (1,300) | — | (1,300) |
| Net income (loss) | 17,402 | — | (831) | (201) | 16,370 |
| Total assets | 1,342,640 | — | 5,388 | (3,516) | 1,344,512 |
| Goodwill | 2,265 | — | 2,783 | — | 5,048 |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note O – 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.

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.

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

Junior subordinated debentures: The fair value was determined by discounting the cash flow using the current market rate.

Other borrowed funds: Consists of treasury tax and loan notes, securities sold under repurchase agreements and capital leases. The fair value of treasury tax and loan notes and securities sold under repurchase agreements approximates the carrying value of the amounts reported in the consolidated balance sheet for each respective account. The fair value of the capital lease was determined by discounting the cash flow using the current market rate.

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

| | December 31 | | | |
|--------------------------------------|----------------|------------|----------------|------------|
| | 2004 | | 2003 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | \$ 52,096 | \$ 52,096 | \$ 45,134 | \$ 45,134 |
| Interest-bearing balances with banks | 3,929 | 3,929 | 8,345 | 8,345 |
| Securities | 371,581 | 371,581 | 414,270 | 414,270 |
| Loans, net | 1,129,791 | 1,104,493 | 851,063 | 841,712 |
| Financial liabilities: | | | | |
| Deposits | 1,318,677 | 1,290,156 | 1,133,931 | 1,116,562 |
| Federal funds purchased | 51,500 | 51,500 | 6,600 | 6,600 |
| Junior subordinated debentures | 20,619 | 20,643 | 20,619 | 20,693 |
| Other borrowed funds | 9,672 | 9,703 | 7,366 | 7,366 |
| FHLB Advances | 109,756 | 109,374 | 90,987 | 92,131 |

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The Peoples Holding Company
Notes to Consolidated Financial Statements

Note P – The Peoples Holding Company (Parent Company Only) Condensed Financial Information
(In Thousands)

Balance Sheets

| | December 31 | |
|---------------------------------------------------|-------------------|-------------------|
| | 2004 | 2003 |
| Assets | | |
| Cash * | \$ 7,035 | \$ 5,283 |
| Stock | 694 | 20,859 |
| Investment in bank subsidiary * | 191,920 | 132,870 |
| Accrued interest receivable on bank balances* | 21 | 29 |
| Accrued interest receivable on other investments | — | 48 |
| Stock options receivable* | 838 | 327 |
| Other assets | 1,625 | 505 |
| Total assets | \$ 202,133 | \$ 159,921 |
| Liabilities and shareholders' equity | | |
| Junior subordinated debentures | \$ 20,619 | \$ 20,619 |
| Dividends payable | 1,897 | 1,639 |
| Other liabilities | 575 | 38 |
| Shareholders' equity | 179,042 | 137,625 |
| Total liabilities and shareholders' equity | \$ 202,133 | \$ 159,921 |

* Eliminates in consolidation

Statements of Income

| | Year ended December 31 | | |
|--------------------------------------------------------------------------------------------|------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2002 |
| Income | | | |
| Dividends from bank subsidiary * | \$20,168 | \$12,038 | \$13,028 |
| Other dividends | 27 | 12 | 28 |
| Other interest income | 428 | 24 | — |
| Loss from sale of securities | (386) | — | — |
| Interest income from bank subsidiary* | 34 | 30 | — |
| | 20,271 | 12,104 | 13,056 |
| Expenses | 1,474 | 366 | 366 |
| Income before income tax credits and equity in undistributed net income of bank subsidiary | 18,797 | 11,738 | 12,690 |
| Income tax credits | (548) | (127) | (136) |
| | 19,345 | 11,865 | 12,826 |
| Equity in undistributed net income of bank subsidiary* | (902) | 6,316 | 3,544 |
| Net income | \$18,443 | \$18,181 | \$16,370 |

* Eliminates in consolidation

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note P – The Peoples Holding Company (Parent Company Only) Condensed Financial Information (continued)

Statements of Cash Flows

| | Year ended December 31 | | |
|-----------------------------------------------------------------------------------|------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2002 |
| Operating activities | | | |
| Net income | \$ 18,443 | \$ 18,181 | \$ 16,370 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed net income of bank Subsidiary | 902 | (6,316) | (3,544) |
| Net amortization of securities | 51 | 3 | — |
| Loss on sale of securities | 386 | — | — |
| (Increase) decrease in other assets | (1,603) | 2,924 | (2,176) |
| Increase in other liabilities | 795 | 172 | 79 |
| Stock option compensation | 511 | 327 | 80 |
| Net cash provided by operating activities | 19,485 | 15,291 | 10,809 |
| Investing activities | | | |
| Purchase of securities available for sale | — | (20,947) | — |
| Proceeds from sale of securities available for sale | 17,116 | — | — |
| Proceeds from calls/ maturities of securities available for sale | 2,679 | 93 | — |
| Investment in subsidiaries | (30,158) | — | — |
| Net cash used in investing activities | (10,363) | (20,854) | — |
| Financing activities | | | |
| Proceeds from advances from subsidiary | — | 1,500 | — |
| Repayment of advances from subsidiary | — | (1,500) | — |
| Proceeds from long term debt | — | 20,619 | — |
| Cash dividends | (7,065) | (6,246) | (5,826) |
| Net acquisition of treasury stock | (305) | (5,014) | (4,700) |
| Net cash used in financing activities | (7,370) | 9,359 | (10,526) |
| Increase in cash | 1,752 | 3,796 | 283 |
| Cash at beginning of year | 5,283 | 1,487 | 1,204 |
| Cash at end of year | \$ 7,035 | \$ 5,283 | \$ 1,487 |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note Q – Quarterly Results of Operations (Unaudited)
(In Thousands)

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

| | <i>Three Months Ended</i> | | | |
|----------------------------|---------------------------|----------------|----------------|---------------|
| | <i>Mar 31</i> | <i>June 30</i> | <i>Sept 30</i> | <i>Dec 31</i> |
| Quarter ended 2004 | | | | |
| Interest income | \$17,584 | \$17,559 | \$20,805 | \$21,076 |
| Interest expense | 5,134 | 5,012 | 5,802 | 5,848 |
| Net interest income | 12,450 | 12,547 | 15,003 | 15,228 |
| Provision for loan losses | 505 | 488 | 636 | (82) |
| Securities gains (losses) | 89 | (31) | 51 | (1,130) |
| Other noninterest income | 8,082 | 9,150 | 8,327 | 7,749 |
| Noninterest expense | 13,686 | 14,182 | 16,210 | 16,631 |
| Income before income taxes | 6,430 | 6,996 | 6,535 | 5,298 |
| Income taxes | 1,783 | 1,939 | 1,844 | 1,250 |
| Net income | \$ 4,647 | \$ 5,057 | \$ 4,691 | \$ 4,048 |
| Basic earnings per share | \$.57 | \$.61 | \$.52 | \$.45 |
| Diluted earnings per share | \$.57 | \$.61 | \$.52 | \$.44 |
| Quarter ended 2003 | | | | |
| Interest income | \$18,364 | \$18,090 | \$17,251 | \$17,105 |
| Interest expense | 5,883 | 5,646 | 5,304 | 4,944 |
| Net interest income | 12,481 | 12,444 | 11,947 | 12,161 |
| Provision for loan losses | 767 | 603 | 799 | 544 |
| Securities gains (losses) | 79 | 23 | 7 | 82 |
| Other noninterest income | 7,667 | 8,041 | 8,211 | 7,783 |
| Noninterest expense | 13,001 | 13,649 | 13,333 | 13,210 |
| Income before income taxes | 6,459 | 6,256 | 6,033 | 6,272 |
| Income taxes | 1,907 | 1,699 | 1,518 | 1,715 |
| Net income | \$ 4,552 | \$ 4,557 | \$ 4,515 | \$ 4,557 |
| Basic earnings per share | \$.54 | \$.55 | \$.55 | \$.56 |
| Diluted earnings per share | \$.54 | \$.55 | \$.55 | \$.55 |

The share and per share data have been restated to reflect a three-for-two stock split effected in the form of a stock dividend on December 1, 2003.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note R – Goodwill and Other Intangible Assets
(In Thousands Except Share Data)

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, 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 the Company measured in this manner is that the insurance operation is a subsidiary of Renasant 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, 2004 | |
|----------------------------------------------------------------------|-------------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | |
| Core deposit intangible assets | \$ 5,528 | \$ (1,021) |
| Other intangible assets | 4,062 | (2,961) |
| Total intangible assets | \$ 9,590 | \$ (3,982) |
| Goodwill | \$ 46,958 | \$ (2,142) |
| Aggregate amortization expense: for the year ended December 31, 2004 | \$ 1,015 | |
| Estimated amortization expense: | | |
| for the year ended December 31, 2005 | 1,431 | |
| for the year ended December 31, 2006 | 849 | |
| for the year ended December 31, 2007 | 809 | |
| for the year ended December 31, 2008 | 809 | |
| for the year ended December 31, 2009 and thereafter | 1,709 | |

The changes in the carrying amount of intangible assets for the year ended December 31, 2004, are as follows:

| | Goodwill | Core Deposits Intangible | Other Intangibles |
|---------------------------------|-----------------|--------------------------|-------------------|
| Balance as of January 1, 2004 | \$ 5,048 | \$ 24 | \$ 798 |
| Intangible assets acquired | 39,768 | 5,021 | 780 |
| Amortization expense | — | (538) | (477) |
| Balance as of December 31, 2004 | \$44,816 | \$ 4,507 | \$ 1,101 |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note R – Goodwill and Other Intangible Assets (continued)

The table below presents net income for the year ended December 31, 2002 adjusted for the cumulative effect of the transitional impairment.

| | Net Income | Basic Earnings Per Common Share | Diluted Earnings per Common Share |
|-------------------------|------------------|---------------------------------------|-----------------------------------------|
| As reported | \$ 16,370 | \$ 1.95 | \$ 1.94 |
| Transitional impairment | 1,300 | 0.15 | 0.15 |
| Adjusted net income | <u>\$ 17,670</u> | <u>\$ 2.10</u> | <u>\$ 2.09</u> |

Note S – Net Income Per Common Share

(In Thousands Except Share Data)

Weighted average shares outstanding have been adjusted for prior periods for the effect of the three-for-two stock split issued in 2003. Basic and diluted net income per common share calculations follow:

| | Year Ended December 31 | | |
|-------------------------------------------|------------------------|------------------|------------------|
| | 2004 | 2003 | 2002 |
| Basic | | | |
| Net income applicable to common stock | \$ 18,443 | \$ 18,181 | \$ 16,370 |
| Average common shares outstanding | 8,597,267 | 8,282,838 | 8,413,934 |
| Net income per common share-basic | <u>\$ 2.15</u> | <u>\$ 2.20</u> | <u>\$ 1.95</u> |
| | | | |
| | Year Ended December 31 | | |
| | 2004 | 2003 | 2002 |
| Diluted | | | |
| Net income | \$ 18,443 | \$ 18,181 | \$ 16,370 |
| Average common shares outstanding | 8,597,267 | 8,282,838 | 8,413,934 |
| Stock awards | 39,741 | 14,063 | 7,465 |
| Average common shares outstanding-diluted | <u>8,637,008</u> | <u>8,296,901</u> | <u>8,421,399</u> |
| Net income per common share-diluted | <u>\$ 2.14</u> | <u>\$ 2.19</u> | <u>\$ 1.94</u> |

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. The Company has no preferred stock to consider in this calculation.

Diluted net income per common share takes into consideration the pro forma dilution assuming outstanding unexercised stock option awards were exercised into common shares. If the option exercise price exceeded the fair value of the stock, the effect would be an anti-dilutive effect on EPS and, consequently, those shares would not have been included in the stock awards adjustment.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note T – Mergers and Acquisitions

(In Thousands Except Share Data)

Renasant Bancshares, Inc.: On July 1, 2004, the Company acquired 100% of the voting equity interests of Renasant Bancshares, Inc. (“Renasant Bancshares”), a bank holding company headquartered in Germantown, Tennessee, in a business combination accounted for under the purchase method of accounting. The acquisition allows the Company to expand its geographical footprint into the rapidly growing markets of east Memphis, Germantown, and Cordova, Tennessee. Renasant Bank of Tennessee, the sole subsidiary of Renasant Bancshares operates two banking offices in Germantown and Cordova, both in Tennessee. Operations at Renasant Bancshares’ loan production office in Hernando, Mississippi, were shifted to Renasant Bank, also a subsidiary of the Company, due to its established presence in DeSoto County.

At June 30, 2004, Renasant Bancshares had total assets of approximately \$221,000, total deposits of approximately \$185,000, and total stockholders’ equity of approximately \$17,000. In connection with the acquisition, the Company recorded intangible assets totaling \$45,569. The intangible assets are not deductible for income tax purposes.

The aggregate transaction value, including transaction expenses and fair value of Renasant Bancshares’ options and warrants assumed by the Company, was \$60,290. The Company issued 802,094 shares of its common stock and paid \$26,128 in cash for the common stock of Renasant Bancshares. The stock was registered under the Securities Act of 1933, as amended. Renasant Bank of Tennessee has maintained its charter, now operating as a subsidiary of the Company; and the management and board of Renasant Bank of Tennessee have remained in effect. Two board members of Renasant Bank of Tennessee were added to the Company’s Board.

The following table summarizes the allocation of purchase price to assets and liabilities acquired based on their fair values on July 1, 2004:

Allocation of Purchase Price for Renasant Bancshares

| | | |
|-----------------------------------------------------------------------|-----------|-----------------|
| Purchase Price: | | |
| Shares issued to Renasant common shareholders | 802,094 | |
| Purchase price per share (based on exchange ratio of 1.117015) | \$ 34.56 | |
| | | |
| Value of stock paid | | \$27,720 |
| Cash paid | | 26,128 |
| Fair value of Renasant options and warrants assumed | | 5,773 |
| Transaction costs | | 669 |
| | | |
| Total Purchase Price | | \$60,290 |
| Net Assets Acquired: | | |
| Renasant’s stockholders’ equity | \$ 17,065 | |
| Adjustments to reflect fair value of assets and liabilities acquired: | | |
| Investments | (331) | |
| Loans, net of unearned income | 492 | |
| Other assets | (16) | |
| Core deposits intangible | 5,021 | |
| Non-compete agreements | 780 | |
| Deposits | (305) | |
| FHLB Advances | 67 | |
| Deferred income taxes | (2,251) | 20,522 |
| | | |
| Goodwill resulting from merger | | \$39,768 |

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note T – Mergers and Acquisitions (continued)

The following unaudited summary information presents the condensed consolidated statements of income of the Company, on a pro forma basis, as if the acquisition of Renasant Bancshares had been consummated on January 1, 2003. Because the merger with Renasant Bancshares was effective on July 1, 2004, data with respect to Renasant Bancshares' financial condition as of December 31, 2004 is already included within the Company's financial condition. The pro forma summary information does not necessarily reflect the results of operations that would have occurred if the acquisitions had occurred at the beginning of the periods presented, or of results which may occur in the future.

**Pro Forma Condensed Consolidated Statements of Income
The Peoples Holding Company and Renasant Bancshares, Inc.**

| | Year ended December 31, | |
|----------------------------|-------------------------|-----------|
| | 2004 | 2003 |
| Interest income | \$ 82,426 | \$ 81,950 |
| Interest expense | 23,259 | 25,573 |
| Net interest income | 59,167 | 56,377 |
| Provision for loan losses | 1,956 | 3,219 |
| Noninterest income | 32,620 | 32,885 |
| Noninterest expense | 64,180 | 59,957 |
| Income before income taxes | 25,651 | 26,086 |
| Income tax expense | 7,002 | 7,210 |
| Net income | \$ 18,649 | \$ 18,876 |
| Earnings per share: | | |
| Basic | \$ 2.07 | \$ 2.08 |
| Diluted | \$ 2.05 | \$ 2.04 |

The following table summarizes the assets acquired and liabilities assumed in connection with the acquisition of Renasant Bancshares:

| | |
|-------------------------------|----------|
| Cash and cash equivalents | \$ 3,743 |
| Securities | 29,062 |
| Loans, net of unearned income | 178,042 |
| Allowance for loan losses | (2,845) |
| Other assets | 13,013 |
| Total assets | 221,015 |
| Deposits | 185,319 |
| Borrowings | 15,827 |
| Other liabilities | 2,809 |

Heritage Financial Holding Corporation: On January 1, 2005, the Company completed its acquisition of Heritage Financial Holding Corporation ("Heritage"), a bank holding company headquartered in Decatur, Alabama. Heritage is the parent of Heritage Bank and operates eight banking offices in Alabama. The acquisition allows the Company to expand its geographical footprint into the key markets of Birmingham, Decatur and Huntsville, all in Alabama.

The company issued approximately 1.4 million shares of its common stock and paid approximately \$23.1 million in cash for 100% of the voting equity interests in Heritage. The aggregate transaction value, including the dilutive impact of Heritage's options assumed by the Company, was \$75,366. In connection with the acquisition, the Company estimates it will record approximately \$57,386 in intangible assets. The amount of intangible assets recorded is directly dependent on the allocation of the purchase to the tangible assets acquired and liabilities assumed. The Company is in the process of finalizing its evaluation of the market values of the tangible assets and liabilities. As such, the intangible assets the Company estimates it will record is subject to change.

The Peoples Holding Company
Notes to Consolidated Financial Statements

Note T – Mergers and Acquisitions (continued)

The following unaudited summary information presents the condensed consolidated statements of income of the Company, on a pro forma basis, as if the acquisition of Heritage had been consummated on January 1, 2003 and selected data from the consolidated balance sheet of the Company, on a pro forma basis, as if the acquisition of Heritage had been consummated on December 31, 2004. The pro forma summary information does not necessarily reflect the results of operations that would have occurred if the acquisitions had occurred at the beginning of the periods presented, or of results which may occur in the future.

Pro Forma Condensed Consolidated Statements of Income
The Peoples Holding Company and Heritage Financial Holding Company

| | Year ended December 31, | |
|----------------------------|--------------------------------|------------------|
| | 2004 | 2003 |
| Interest income | \$112,720 | \$113,042 |
| Interest expense | 35,813 | 41,718 |
| Net interest income | 76,907 | 71,324 |
| Provision for loan losses | 5,587 | 3,198 |
| Noninterest income | 37,927 | 37,872 |
| Noninterest expense | 87,002 | 81,088 |
| Income before income taxes | 22,245 | 24,910 |
| Income tax expense | 5,488 | 6,739 |
| Net income | <u>\$ 16,757</u> | <u>\$ 18,171</u> |
| Earnings per share: | | |
| Basic | \$ 1.62 | \$ 1.76 |
| Diluted | \$ 1.55 | \$ 1.68 |

Pro Forma Condensed Consolidated Balance Sheet
The Peoples Holding Company and Heritage Financial Holding Company

| | December 31, 2004 |
|--------------------------------------------|------------------------------|
| Cash and cash equivalents | \$ 61,686 |
| Securities | 465,967 |
| Mortgage loans held for sale | 24,103 |
| Loans, net of unearned income | 1,534,260 |
| Allowance for loan losses | (25,097) |
| Intangible assets | 107,810 |
| Other assets | 134,261 |
| Total assets | <u>\$2,302,990</u> |
| Deposits | \$1,699,962 |
| Borrowings | 344,164 |
| Other liabilities | 27,511 |
| Shareholders' equity | 231,353 |
| Total liabilities and shareholders' equity | <u>\$2,302,990</u> |

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based upon their evaluation as of December 31, 2004, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) 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.

Management’s Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm

The information required to be furnished pursuant to this item is set forth under the captions “Management’s Report on Internal Control over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” in the Company’s Consolidated Financial Statements in Item 8 of this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes to internal controls over financial reporting during the fourth quarter of 2004.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers of the Company

The information appearing under the headings “Board of Directors” and “Executive Officers of the Company” in the Company’s definitive Proxy Statement, dated March 10, 2005, is incorporated herein by reference.

Code of Ethics

The Company has adopted a code of business conduct and ethics in compliance with Item 406 of Regulation S-K for the Company’s principal executive officer, principal financial officer, principal accounting officer and controller. The Company’s Code of Ethics is available on its website at www.renasantbank.com. Any person may request a free copy of the Code of Ethics from the Company by sending a request to the following address: The Peoples Holding Company, 209 Troy Street, Tupelo, Mississippi, 38802, Attention: Director of Investor Relations. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K (now Item 5.05 of Form 8-K) regarding an amendment to, or waiver from, a provision of the Company’s Code of Ethics by posting such information on its website, at the address specified above.

Directors of the Company, Audit Committee Members and Section 16(a) Beneficial Ownership Reporting Compliance

The information appearing under the headings “Board of Directors”, “Compensation, Meetings and Committees of the Board of Directors” and “Section 16(a) Benefit Ownership Reporting Compliance” in the Company’s definitive Proxy Statement, dated March 10, 2005, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the headings “Compensation, Meetings and Committees of the Board of Directors”, “Executive Compensation”, “Report of the Compensation Committee”, “Compensation Committee Interlocks and Insider Participation” and “Stock Performance Graph” in the Company’s definitive Proxy Statement, dated March 10, 2005, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the heading “Stock Ownership” in the Company’s definitive Proxy Statement, dated March 10, 2005, is incorporated herein by reference.

The information appearing under the caption “Equity Compensation Plan Information” in Item 5 of this Form 10-K is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the headings “Indebtedness of Related Parties” and “Certain Relationships and Related Transactions” in the Company’s definitive Proxy Statement, dated March 10, 2005, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the heading “Independent Auditors” in the Company’s definitive Proxy Statement, dated March 10, 2005, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) - (1) Financial Statements

The following consolidated financial statements and supplementary information for the fiscal years ended December 31, 2004, 2003, and 2002 are included in Part II, Item 8 herein:

- (i) [Report of Independent Registered Public Accounting Firm](#)
- (ii) [Consolidated Balance Sheets – December 31, 2004 and 2003](#)
- (iii) [Consolidated Statements of Income – Years ended December 31, 2004, 2003, and 2002](#)
- (iv) [Consolidated Statements of Shareholders' Equity – Years ended December 31, 2004, 2003, and 2002](#)
- (v) [Consolidated Statements of Cash Flows – Years ended December 31, 2004, 2003, and 2002](#)
- (vi) [Notes to Consolidated Financial Statements – December 31, 2004](#)

(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

- (2)(i) Agreement and Plan of Merger dated as of February 17, 2004 and related Plan of Merger among Renasant Bancshares, Inc., The Peoples Holding Company and Peoples Merger Corporation, a wholly-owned subsidiary of the Company⁽¹⁾
- (2)(ii) Agreement and Plan of Merger dated as of July 15, 2004 and related Plan of Merger by and among The Peoples Holding Company, Renasant Bank, Heritage Financial Holding Corporation and Heritage Bank, as amended by Amendment No. 1 to Agreement and Plan of Merger dated November 22, 2004⁽²⁾
- (3)(i) Articles of Incorporation of the Company⁽³⁾
- (3)(ii) Restated Bylaws of The Peoples Holding Company⁽⁴⁾
- (4)(i) Articles of Incorporation of the Company⁽³⁾
- (4)(ii) Articles of Incorporation of the Company⁽⁴⁾
- (10)(i) The Peoples Holding Company 2001 Long-Term Incentive Plan^{*(5)}
- (10)(ii) The Peoples Holding Company Deferred Compensation Plan^{*(6)}
- (10)(iii) Executive Deferred Compensation Plan A^{*(7)}
- (10)(iv) Executive Deferred Compensation Plan B^{*(8)}
- (10)(v) Directors' Deferred Fee Plan A^{*(9)}
- (10)(vi) Directors' Deferred Fee Plan B^{*(10)}
- (10)(vii) Change in Control Employment Agreement dated January 1, 2001 between the Company and E. Robinson McGraw^{*(11)}

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| | |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (10)(viii) | Change in Control Employment Agreement dated February 28, 1998 between the Company and Stuart R. Johnson ^{*(12)} |
| (10)(ix) | Change in Control Employment Agreement dated February 28, 1998 between the Company and James W. Gray ^{*(13)} |
| (10)(x) | The Peoples Holding Company Plan of Assumption of Renasant Bancshares, Inc. Stock Option Plan ^{*(14)} |
| (10)(xi) | Employment Agreement dated as of July 14, 2004 by and between Larry R. Mathews, The Peoples Holding Company and The Peoples Bank & Trust Company ^{*(15)} |
| (10)(xii) | Termination and Release Agreement dated as of January 1, 2005 by and among Larry R. Mathews, Heritage Financial Holding Corporation and Heritage Bank ^{*(16)} |
| (10)(xiii) | The Peoples Holding Company Plan of Assumption of Renasant Bancshares, Inc. Stock Option Plan ^{*(17)} |
| (10)(xiv) | Performance Based Rewards Bonus Plan ^{*(18)} |
| (10)(xv) | Change in Control Employment Agreement dated July 1, 2003 between the Company and Stephen M. Corban [*] |
| (10)(xvi) | Employment Agreement dated as of July 1, 2004 by and between Francis J. Cianciola and The Peoples Holding Company [*] |
| (21) | Subsidiaries of the Company |
| (23) | Consent of Independent Registered Public Accounting Firm |
| (31)(i) | Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (31)(ii) | Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (32)(i) | Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (32)(ii) | Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

-
- ^{*} Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of Form 10-K.
- ⁽¹⁾ Filed as Annex A-1 to the Form S-4 Registration Statement of the Company (File No. 333-114309) filed with the Securities and Exchange Commission on April 8, 2004 and incorporated herein by reference.
- ⁽²⁾ Filed as Annex A-1 to the Pre-Effective Amendment No. 1 to Form S-4 Registration Statement of the Company (File No. 333-119572) filed with the Securities and Exchange Commission on November 23, 2004 and incorporated herein by reference.
- ⁽³⁾ 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.
- ⁽⁴⁾ Filed as exhibit 3.2 to the Form 10-K filed with the Securities and Exchange Commission on March 11, 2004 and incorporated herein by reference.

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- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) Filed as exhibit 10.8 to the Form 10-K filed with the Securities and Exchange Commission on March 10, 2003 and incorporated herein by reference.
- (13) Filed as exhibit 10.9 to the Form 10-K filed with the Securities and Exchange Commission on March 10, 2003 and incorporated herein by reference.
- (14) Filed as exhibit 99 to the Form S-8 Registration Statement of the Company (File No. 333-117987) filed with the Securities and Exchange Commission on August 6, 2004 and incorporated herein by reference.
- (15) Filed as exhibit 10.11 to the Form 8-K filed with the Securities and Exchange Commission on January 6, 2005 and incorporated herein by reference.
- (16) Filed as exhibit 10.12 to the Form 8-K filed with the Securities and Exchange Commission on January 6, 2005 and incorporated herein by reference.
- (17) Filed as exhibit 10.13 to the Form 8-K filed with the Securities and Exchange Commission on January 24, 2005 and incorporated herein by reference.
- (18) Filed under Item 1.01 of the Form 8-K filed with the Securities and Exchange Commission on February 3, 2005 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 total 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.

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 2, 2005

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 2, 2005

by: /s/ Robert C. Leake

Robert C. Leake
Chairman of the Board and Director

Date: March 2, 2005

by: /s/ William M. Beasley

William M. Beasley
Vice Chairman of the Board and Director

Date: March 2, 2005

by: /s/ George H. Booth, II

George H. Booth, II
Director

Date: March 2, 2005

by: /s/ Frank B. Brooks

Frank B. Brooks
Director

Date: March 2, 2005

by: /s/ John M. Creekmore

John M. Creekmore
Director

Date: March 2, 2005

by: /s/ Francis J. Cianciola

Francis J. Cianciola
Executive Vice President and Director

Date: March 2, 2005

by: /s/ Marshall H. Dickerson

Marshall H. Dickerson
Director

Date: March 2, 2005

by: /s/ Karen S. Dixon

Karen S. Dixon
Senior Vice President and Controller

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Date: March 2, 2005

by: /s/ John T. Foy

John T. Foy
Director

Date: March 2, 2005

by: /s/ Eugene B. Gifford, Jr.

Eugene B. Gifford, Jr.
Director

Date: March 2, 2005

by: /s/ Richard L. Heyer, Jr.

Richard L. Heyer, Jr.
Director

Date: March 2, 2005

by: /s/ Neal A. Holland, Jr.

Neal A. Holland, Jr.
Director

Date: March 2, 2005

by: /s/ Harold B. Jeffreys

Harold B. Jeffreys
Director

Date: March 2, 2005

by: /s/ Jack C. Johnson

Jack C. Johnson
Director

Date: March 2, 2005

by: /s/ Stuart R. Johnson

Stuart R. Johnson
Executive Vice President and
Chief Financial Officer

Date: March 2, 2005

by: /s/ E. Robinson McGraw

E. Robinson McGraw
President and Chief Executive Officer and
Director

Date: March 2, 2005

by: /s/ J. Niles McNeel

J. Niles McNeel
Director

Date: March 2, 2005

by: /s/ C. Larry Michael

C. Larry Michael
Director

Date: March 2, 2005

by: /s/ Theodore S. Moll

Theodore S. Moll
Director

Date: March 2, 2005

by: /s/ John W. Smith

John W. Smith
Director

Date: March 2, 2005

by: /s/ H. Joe Trulove

H. Joe Trulove
Director

Date: March 2, 2005

by: /s/ J. Larry Young

J. Larry Young
Director

EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|----------------------------------------------------------------------------------------------------------------------|
| (10)(xv) | Change in Control Employment Agreement dated July 1, 2003 between the Company and Stephen M. Corban* |
| (10)(xvi) | Employment Agreement dated as of July 1, 2004 by and between Francis J. Cianciola and The Peoples Holding Company* |
| (21) | Subsidiaries of the Company |
| (23) | Consent of Independent Registered Public Accounting Firm |
| (31)(i) | Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (31)(ii) | Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (32)(i) | Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (32)(ii) | Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of Form 10-K.

THE PEOPLES HOLDING COMPANY

EMPLOYMENT AGREEMENT

This Agreement ("Agreement") has been entered into this 1st day of July, 2003, by and between The Peoples Holding Company ("Company"), and Stephen M. Corban, an individual ("Executive").

RECITALS

The Board of Directors or 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, 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 July 1, 2003.
- (g) "Exchange Act" means the Securities and Exchange Act of 1934, as amended.
- (h) "Person" means any "person" within the meaning of § 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 if 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 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.

1.3 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. 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 Executives employment at any time, subject to providing the benefits hereinafter specified and in accordance with the terms hereof. Nothing contained herein shall require the surviving corporation to use the designation of General Counsel.

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, Nothing contained herein shall require the Executive to move and will give the Executive the authority to receive the benefits provided to him under this contract if he does not elect to move.

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 W2, 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 including benefits from welfare benefit plans 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 §280G or would constitute an “excess parachute payment” (as defined in Code §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 §280G or without causing any portion of the Payment to be subject to the excise tax imposed by Code §4999.

If the independent accountant determines that any Payment would be nondeductible by the Company because of Code §280G or that any portion of the Payment would be subject to the excise tax imposed by Code §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 §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 §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 §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 §4999 or if the period of limitations for assessment of tax under Code §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 §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 §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 he 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 alter 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

Stephen M. Corban
2405 Country Club Road
Tupelo, MS 38804

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.

/s/ Stephen M. Corban
EXECUTIVE

/s/ Robert C. Leake
THE PEOPLES HOLDING COMPANY
Chairman of the Board

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is entered into as of the 1st day of July, 2004, by and among **Francis J. Cianciola** (“Employee”) and **The Peoples Holding Company** (“Peoples”).

WITNESSETH:

WHEREAS, Peoples desires to employ Employee on the terms and conditions set forth in this Agreement and Employee desires to be employed by Peoples on such terms and conditions;

NOW, THEREFORE, in consideration of the respective representations, warranties and covenants hereinafter set forth, the parties agree as follows:

I. EMPLOYMENT. Peoples agrees to employ Employee and Employee agrees to remain in the employ of Peoples, upon the terms and subject to the conditions provided herein.

II. POSITION, DUTIES AND RESPONSIBILITIES.

A. Employee shall serve as an officer and employee of Peoples with such duties as shall be mutually agreed upon by Employee and Peoples, shall serve as President and Chief Executive Officer of Renasant Bank, a Tennessee banking corporation and an affiliate of Peoples (the “Company”), and shall also serve in such other capacity or capacities as shall be mutually agreed upon from time to time by Employee and Peoples. Employee shall report directly to the President and Chief Executive Officer of Peoples (the “Peoples CEO”) and to the Board of Directors of the Company.

B. Employee’s duties shall include the responsibility for the operations of the Company consistent with Peoples’ policies as they currently exist and as they may change over time and such other duties as may from time to time be delegated to Employee by the Peoples CEO. Employee shall perform services when and as directed by the Company and Peoples and as more fully described below, except with Employee’s prior written consent, Employee’s assigned duties shall not be inconsistent with his position. Peoples agrees to vote its stock in the Company to elect Employee as a director of the Company during his employment with the Company. Peoples, also, agrees to cause Employee to be nominated to the Board of Directors of Peoples during Employee’s employment.

C. Employee shall devote substantially all of his business time, attention and efforts in the faithful performance of his duties hereunder, provided, however, Employee may continue his current investing in real estate and other investment opportunities as long as such activities do not interfere with Employee’s duties and responsibilities under this Agreement.

D. Subject to the policies, procedures and code of ethics of Peoples as in effect from time to time, the budget of the Company then in effect (“the “Budget”) and all applicable laws and regulations, Employee shall have exclusive authority over recruiting, hiring, firing and setting compensation of all Company employees.

E. Without the consent of Peoples, Employee shall not cause or permit the Company to:

- i) issue any securities of the Company or any of its affiliates;
- ii) make any tax election or determine the accounting method to be used by the Company or any of its affiliates;
- iii) establish a subsidiary or transfer any interest in any subsidiary or merge or consolidate any subsidiary of the Company with any other entity;
- iv) adopt a budget or make any material deviations from the Budget then in effect;
- v) sell, exchange, lease, mortgage, pledge, charge or otherwise transfer or encumber all or any portion of the assets of the Company or any subsidiary;
- vi) enter into any business combination, strategic partnership or joint venture with another individual, partnership, corporation, trust, limited liability company or any other entity (any of the foregoing may be referred to as “Person”), or acquire or dispose of all or any interest in any other Person, merge or consolidate with or into another Person;
- vii) create, incur, assume or otherwise become liable with respect to any obligation for borrowed money (including a guarantee of, or contingent liability for, the indebtedness or other obligations of any Person), or issue any bonds, debentures, notes or other evidences of indebtedness;
- viii) enter into any transaction or series of related transactions involving capital expenditures, including incoming lease commitments, purchases of equipment or inventory or other expenditures that are not consistent with the Budget then in effect;
- ix) authorize or enter into or amend any agreement, commitment or other transaction, or any series of related agreements, commitments or other transactions between the Company and any affiliate; or
- x) take any action outside the ordinary course of business.

F. Employee represents and warrants that he is not bound by any employment, consulting, non-competition, confidentiality, finders, marketing or other agreement or arrangement that would, or might reasonably be expected to, prohibit or restrict him from performing his duties and obligations.

III. COMPENSATION AND BENEFITS.

A. The Company shall pay Employee an annual salary of Two Hundred and Ten Thousand Dollars (\$210,000.00), payable in equal installments every two (2) weeks in accordance with the Company's regular payroll policy subject to tax withholding for taxes as required by law. Employee may receive bonuses in accordance with Peoples' policies in effect from time to time and may be eligible for salary increases as may be mutually agreeable from time to time.

B. Employee shall also be entitled to receive the benefits of Peoples and its affiliates specified in Schedule 3(b). To the extent permitted by law and each applicable benefit plan, all prior years of service with the Company will be counted for vesting and eligibility purposes under all applicable Peoples benefit plans. In addition, upon Employee reaching the age of 55, Employee shall become eligible to participate in Peoples' Early Retirement Medical Benefit.

C. Employee is authorized to incur necessary and customary expenses in connection with the business of Peoples and the Company, including expenses for entertainment, trade association meetings, travel, promotion and similar matters, consistent with Peoples' and the Company's policies as in effect from time to time. The Company will pay or reimburse Employee for such expenses upon presentation by Employee of appropriate records to verify such expense.

D. Employee shall be entitled to the use of a leased or Company-owned six-passenger motor vehicle to include all operating and maintenance expenses.

IV. TERM. Employee's employment shall commence on July 1, 2004, and shall terminate on June 30, 2009 unless terminated sooner as provided in this Agreement.

V. TERMINATION.

A. If Employee becomes physically or mentally disabled, as determined in the good faith judgment of Peoples' Board of Directors, Employee's employment may be terminated upon sixty (60) days written notice.

B. Employee may be terminated for cause ("Cause") by Peoples if:

1. the Employee commits, or is convicted of, or enters a plea of nolo contendere with respect to, a felony or a crime involving moral turpitude or any other criminal activity or unethical conduct that, in the good faith opinion of the Board of Directors of Peoples, would seriously impair Employee's ability to perform his duties hereunder or would impair the business reputation of Peoples, the Company or any of their affiliates;

2. in the good faith opinion of the Board of Directors of Peoples, the Employee has failed to perform the duties assigned to him and such failure is not cured within thirty (30) days of receipt by Employee of written notice thereof;
3. the Employee willfully and knowingly violates any statute, rule or regulation under the federal banking laws or the banking laws of any state that, in the good faith opinion of the Board of Directors of Peoples, would seriously impair Employee's ability to perform his duties hereunder or would impair the business reputation of Employee, Peoples, the Company or any of their affiliates; or
4. in the good faith opinion of the Board of Directors of Peoples, the Employee materially breaches any provision of this Agreement.

C. Employee may terminate Employee's employment upon written notice to Peoples at any time for "Good Reason" or any other reason. "Good Reason" is defined to mean (i) a significant diminution of duties from those assigned to Employee at commencement of this Agreement, (ii) a relocation of Employee outside of Shelby County, Tennessee without Employee's consent, (iii) the failure by the Company and Peoples to elect Employee the President and Chief Executive Officer and a director of the Company throughout the term of this Agreement, or (iv) any material breach of this Agreement by Peoples which is not cured within thirty (30) days of receipt by Peoples of written notice thereof. If Employee terminates for Good Reason, then Employee shall receive a payment equal to Employee's annual base salary at the time of termination, payable in a lump sum upon termination. Employee shall, also, receive a payment equal to his average bonus for the prior two (2) years and a payment equal to the then current annual lease payment on the motor vehicle described in Section 3(d). Peoples shall, also, pay a portion of Employee's COBRA premium under the same terms as it pays its other employees' health insurance premiums for a period of one (1) year. Peoples and Employee may mutually agree to have Peoples make a payment equal to Employee's annual base salary at the time of termination plus an amount equal to Employee's average bonus for the two (2) years prior to termination, payable in twelve (12) equal monthly installments beginning on the first anniversary date of Employee's termination (an "Extension Payment").

D. Peoples may terminate Employee's employment without cause upon four (4) weeks notice to Employee. If Employee is terminated without cause, Employee will receive a payment equal to the Employee's annual base salary at the time of termination, payable in a lump sum upon termination. Employee shall, also, receive a payment equal to his average bonus for the prior two (2) years and a payment equal to the then current annual lease payment on the motor vehicle described in Section 3(d). Peoples shall, also, pay a portion of Employee's COBRA premium under the same terms as it pays its other employees' health insurance premiums for a period of one (1) year. Peoples and Employee may mutually agree to have Peoples make an Extension Payment.

E. If Employee's employment is terminated under Sections 5(a) or (b), or if Employee terminates his employment for any reason other than "Good Reason," then Peoples shall pay to Employee his salary through the date of termination as well as any benefits to which Employee may be entitled as of the date of termination under the benefit plans referred to in Section 3.

F. If a Change in Control (as hereinafter defined) occurs after the date hereof and during the term of this Agreement and within three (3) years after such Change in Control, either Peoples shall terminate the Employee's employment without Cause, or the Employee shall terminate employment with Peoples for Good Reason, then the Employee shall be entitled to the benefits provided below for the three (3) year period after Change in Control or the remaining portion of said three (3) year period following the date of termination. For purposes of this Agreement, "Change in Control" shall be deemed to have occurred if: (i) Company sells or otherwise disposes of all or substantially all of its assets; (ii) there is a merger or consolidation of Company with any other corporation or corporations, provided that the shareholders of Company, as a group, do not hold, immediately after such event, at least fifty percent (50%) of the voting power of the surviving or successor corporation; (iii) any person or entity, including any "person" as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), becomes the "beneficial owner" (as defined in Rule 13(d-3) under the Exchange Act) of Common Stock of Company representing fifty percent (50%) or more of the combined voting power of the voting securities of Company (exclusive of persons who are now officers or directors of Company); or (iv) the approval by the shareholders of a liquidation or dissolution of the Company.

1. "Accrued Obligations": On the tenth (10th) business day following the date of termination, the Company shall pay to the Employee the sum of (i) the Employee'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.
2. "Severance Amount": The "Severance Amount" shall be an amount equal to 2.99 times the Employee's annual base salary in effect on the business day prior to the date of termination plus 2.99 times the Employee's average annual bonus for the two (2) years prior to the Change in Control. The Company shall set aside this amount in escrow for a period of three (3) years and the escrow agent shall pay to the Employee, 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 Employee from his present employer or any future employer or employers for a period of thirty-six (36) months or until the earlier exhaustion of the entire severance amount plus interest thereon. In the event of the Employee's death after a termination for which a "Severance Amount" is payable, the escrow agent shall continue to pay to the Employee's spouse or other named beneficiary the remaining obligation owed the Employee under the terms of this Agreement and the escrow agreement. The Company may, however, at its option, elect to pay the Severance Amount to the Employee, 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 Employee, the Employee'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 this Agreement and escrow agreement shall be terminated.

In the event, subsequent to the Change in Control, the Employee (i) violates the provisions of Section 6 or (ii) engages in any conduct which would violate the provisions of Section 6 if the Restricted Period (as defined below) were still in effect (if the Restricted Period has expired or expires during such time), then any obligation of the Company under this Section 5(f) is terminated, and the Employee shall not be entitled to any further benefits under this Agreement. If this Section 5(f) is applicable, then the Restricted Period is the period set forth in Section 6(d)(3).

The severance amount set aside in escrow shall be invested according to the provisions of an escrow agreement and the interest earned included in the amount payable to the Employee. Any severance amounts not paid to the Employee shall be returned to the Company at the end of the thirty-six (36) month escrow period, or sooner should the Employee (i) violate the provisions of Section 6 or (ii) engage in any conduct which would violate the provisions of Section 6 if the Restricted Period (as defined below) were still in effect (if the Restricted Period has expired or expires during such time). All interest earned on the account shall be paid to the Employee following the final severance payment. If this Section 5(f) is applicable, then the Restricted Period is the period set forth in Section 6(d)(3).

3. "Other Benefits": To the extent not previously provided, the Company shall timely pay or provide to the Employee and/or the Employee's family any other amounts or benefits including benefits from welfare benefit plans required to be paid or provided for which the Employee and/or the Employee's family is eligible to receive pursuant hereto and under any plan, program, policy or practice or contract or agreement of Peoples as those provided generally to other peer executives and their families during the ninety (90) day period immediately preceding the date hereof or, if more favorable to the Employee, as those provided generally after the date here of to other peer executives of Peoples and their families.
4. If termination of the Employee occurs less than three (3) years after such Change in Control, then the benefits provided by this Agreement shall be prorated on the ratio of the remaining portion of said three (3) year period to the full three (3) year period following Change in Control.

“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, Peoples or their affiliates to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms hereof or otherwise) (a “Payment”) would be nondeductible by the Company, Peoples or their affiliates for Federal income tax purposes because of Code §280G or would constitute an “excess parachute payment” (as defined in Code §280G), then the aggregate present value of amounts payable or distributable to or for the benefit of the Employee pursuant hereto or pursuant to any other agreement with the Company, Peoples or their affiliates 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, Peoples or their affiliates because of Code §280G or without causing any portion of the Payment to be subject to the excise tax imposed by Code §4999.

If the independent accountant determines that any Payment would be nondeductible by the Company, Peoples or their affiliates because of Code §280G or that any portion of the Payment would be subject to the excise tax imposed by Code §4999, the Company shall promptly give Employee notice to that effect. The Employee may then elect, in the Employee’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 and Peoples in writing of the Employee’s election within ten (10) days after the Employee’s receipt of such notice. If no such election is made by the Employee within such ten (10) day period, Peoples 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 Employee promptly of such election. For purposes of this paragraph, present value shall be determined in accordance with Code §280G(d)(4). All determinations made by the independent accountant under this paragraph shall be binding upon the Company, Peoples or their affiliates and the Employee and shall be made within sixty (60) days of a termination of employment of the Employee. As promptly as practicable following such determination and the elections hereunder, the Company, Peoples

or their affiliates, as applicable, shall pay to or distribute to or for the benefit of the Employee such amounts as are then due to the Employee hereunder and shall promptly pay to or distribute for the benefit of the Employee in the future such amounts as become due to the Employee hereunder.

As a result of the uncertainty in the application of Code §§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, Peoples and/or their affiliates which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company, Peoples and/or their affiliates 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 Employee, the Company, Peoples or any of their affiliates 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 Employee which the Employee shall repay to the Company, Peoples or their affiliates, as applicable, together with interest at the applicable Federal rate provided for in Code §7872(f)(2); provided, however, that no amount shall be payable by the Employee to the Company, Peoples or their affiliates, as applicable, if and to the extent such payment would not reduce the amount which is subject to taxation under Code §4999 or if the period of limitations for assessment of tax under Code §4999 against the Employee shall have expired. If the Employee is required to repay an amount under this Section, the Employee shall repay such amount over a period of time not to exceed one (1) year for each Twenty-Five Thousand Dollars (\$25,000.00) which the Employee must repay to the Company, Peoples or their affiliates, as applicable. 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, Peoples or their affiliates, as applicable, to or for the benefit of the Employee together with interest at the applicable Federal rate provided for in Code §7872(f)(2)(A).

The Company shall bear all costs the independent accountants may incur in connection with any calculations contemplated herein.

If this Section 5(f) applies, Employee shall not be entitled to receive any payments or benefits under Sections 5(c), 5(d) or 5(e).

VI. NON-COMPETITION.

A. In consideration of the sums paid by Peoples to Employee pursuant to the Agreement and Plan Merger Agreement by and among Peoples, Peoples Merger Corporation and Renasant Bancshares, Inc. dated February 17, 2004 (the "Merger Agreement") and the salary and benefit payments to be made to the Employee under the terms of this Agreement, Employee hereby covenants to Peoples that during the Restricted Period (as hereinafter defined), he shall not, except on behalf of the Company, Peoples and their affiliates directly or indirectly, in his own capacity or through any other Person, whether as owner, consultant, executive, partner, member, manager, officer, director, venturer, agent, through stock ownership, investment of capital, lending of money or property, rendering of services (including, without limitation, rendering services as an employee) or otherwise, engage in the Business (as hereinafter defined) or any business similar thereto in the Territory (as hereinafter defined).

B. During the Restricted Period, Employee covenants that he will not, directly or indirectly, in his own capacity or through any other Person (as defined above) (i) solicit or contact for business purposes any existing customer, supplier, or prospective customer or supplier, of the Company, Peoples or any of their affiliates for the purpose of competing with the Business for himself or for any other Person, (ii) induce, or attempt to induce, any employees, agents, consultants or suppliers of or to the Company, Peoples or any of their affiliates, or any other Person to do anything from which Employee is restricted by reason of this Section 6, (iii) interfere with existing or proposed agreements or other arrangements, or knowingly interfere with future agreements or other arrangements, between the Company, Peoples or any of their affiliates on the one hand and any other Person on the other hand or (iv) induce, attempt to induce, solicit, offer or aid others to offer employment or engagement as a consultant or agent to anyone who is an employee, agent or consultant of or to the Company, Peoples or any of their affiliates.

C. Territory means Shelby and Fayette Counties in Tennessee and DeSoto County, Mississippi, or any other county in which Employee may be assigned to work for the Company, Peoples or their affiliates.

D. The Restricted Period means:

- (1) The period beginning with the date Employee commences employment and ending the later of either (i) five (5) years after the date hereof or (ii) one (1) year after Employee ceases to be an employee of Peoples or any of its affiliates, unless Peoples and Employee agree to an Extension Payment, in which case the period in clause (ii) of this sentence will be two (2) years; however, this Subsection (d)(1) shall not apply if Subsection(d)(2) or (d)(3) apply.
- (2) If Employee is terminated under Section 5(c) or 5(d) and such termination is not in connection with a Change in Control, then the Restricted Period means the period beginning with the date Employee commences employment and ending the later of either (i) three (3) years after the date hereof or (ii) one (1) year after Employee ceases to be an employee of

Peoples or any of its affiliates, unless Peoples and Employee agree to an Extension Payment, in which case the period in clause (ii) of this sentence will be two (2) years.

- (3) If the termination occurs pursuant to Section 5(f), then the Restricted Period means the period beginning with the date Employee commences employment and ending three (3) years after the date hereof.

E. "Business" means commercial banking, financial services or the lending of money.

F. The Restricted Period shall be extended by the period of time, if any, during which Employee is in violation of the Employee's agreement and obligation. If Employee violates the provisions of this Section 6, then, in addition to, and not in lieu of, any other remedy available to Peoples or its affiliates, any obligation of Peoples or its affiliates to make any payment under Section 5 including, without limitation, any Extension Payment shall terminate.

G. Employee acknowledges that a breach of the covenants contained in this Agreement, including the covenants contained in this Section 6, may cause irreparable damage to the Company, Peoples or their affiliates, the amount of which will be difficult to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, Employee agrees, that, in addition to any other remedy which may be available at law or in equity, the Company, Peoples and each affiliate shall be entitled to specific performance and injunctive relief to prevent any actual, intended or likely breach. The parties acknowledge that the time, scope and other provisions of this Section 6 have been specifically negotiated by sophisticated commercial parties and agree that all such provisions are reasonable for a transaction of the nature provided for in the Merger Agreement and payments to Employee under Section 3 of this Agreement.

H. In the event that the agreements in this Section 6 or any other provision contained in this Agreement shall be determined by any court of competent jurisdiction to be unenforceable such agreements or provisions shall be interpreted to extend only over the maximum period of time for which they may be enforceable and/or over the maximum geographical area as to which they may be enforceable and/or to the maximum extent in all other respects as to which they may be enforceable, all as determined by such court in such action so as to be enforceable to the extent consistent with then applicable law. The existence or alleged existence of any claim which Employee may have against the Company, Peoples or any affiliate shall not constitute a defense or bar to the enforcement of any of the provisions of this Section 6 and shall be pursued through separate court action by Employee.

I. Employee may be permitted to own not more than five percent (5%) of the outstanding capital stock of (i) a publicly-owned corporation engaged in the Business or (ii) other community banks which do not have any offices in the Territory so long as, in each case, Employee is not in control of such corporation; does not serve as a director, officer, employee, agent or consultant to such corporation; or does not otherwise violate the provisions of this Section 6.

VII. DISCLOSURE OF INFORMATION. Employee shall not, at any time during the term of Employee's employment at Peoples or at any affiliate or thereafter, disclose to any Person, except as required by law, any non-public information (including, without limitation, non-public information obtained prior to the date hereof) concerning the business, clients or affairs of the Company or Peoples, or any affiliate of the Company or Peoples, for any reason or purpose whatsoever. Employee shall not make any use of any of such non-public information for his own purpose or for the benefit of any Person except the Company. Upon the termination of Employee's employment at the Company, Employee shall return to the Company or Peoples, as appropriate, all property of the Company or Peoples and any affiliate of the Company or Peoples then in the possession of Employee and all books, records, computer tapes, discs or other electronic media and all other material containing non-public information concerning the business, clients or affairs of the Company, Peoples or any affiliate of the Company or Peoples. Employee shall not retain copies of any material required to be returned to the Company or Peoples.

VIII. INTELLECTUAL PROPERTY. Employee shall promptly disclose, grant and assign to Peoples for its use and benefit any and all marks, designs, logos, inventions, improvements, business processes, technical information and suggestions relating in any way to the business conducted by the Company or Peoples, or any affiliate of the Company or Peoples, which he may develop or which may be acquired by Employee during the term of Employee's employment at Peoples (whether or not during usual working hours), together with all trademarks, patent applications, letters patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement, process or technical information. In connection therewith:

1. Employee shall without charge, but at the expense of Peoples, promptly at all times hereafter execute and deliver such applications, assignments, descriptions and other instruments as may be necessary or proper in the opinion of Peoples to vest title to any such marks, designs, logos, inventions, improvements, business processes, technical information, trademarks, patent applications, patents, copyrights or reissues thereof in Peoples and to enable them to obtain and maintain the entire right and title thereto throughout the world;
2. Employee shall render to Peoples at its expense all such assistance as it may require in the prosecution of applications for said trademarks, patents, copyrights or reissues thereof, in the prosecution or defense of interferences which may be declared involving any said trademarks, applications, patents or copyrights and in any litigation in which the Company, Peoples or any of their affiliates may be involved relating to any such trademarks, patents, inventions, improvements, processes or technical information; and
3. for the avoidance of doubt, the foregoing provisions shall be deemed to include an assignment of future copyright in accordance with Section 201 of the Copyright Act of 1986 and any amendment or re-enactment thereof relating in any way to the business conducted by the Company or Peoples or any affiliate of the Company or Peoples.

IX. HEADINGS. Section and other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

X. INTEGRATED AGREEMENT. This Agreement constitutes the entire understanding and agreement among the parties hereto with respect to the subject matter hereof, and there are no other agreements, understandings, restrictions, representations or warranties among the parties other than those set forth herein or provided for herein.

XI. AMENDMENTS. This Agreement may be amended or modified at any time in any or all respects, but only by an instrument in writing executed by the parties hereto.

XII. CHOICE OF LAW. The validity of the Agreement, the construction of its terms, and the determination of the rights and duties of the parties hereto shall be governed by and construed in accordance with the internal laws of the State of Tennessee excluding conflicts of law principles. Each party irrevocably (i) submits to the exclusive jurisdiction of any Tennessee state or federal court sitting in the Western District of Tennessee, with respect to matters arising out of or relating hereto, (ii) agrees that all claims with respect to such action or proceeding may be heard and determined in such Tennessee state or federal court, (iii) waives to the fullest possible extent, the defense of an inconvenient forum, (iv) waives the right to a trial by jury and (v) agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

XIII. NO STRICT CONSTRUCTION. The language used in this Agreement shall be deemed to be the language chosen by the parties to express their collective mutual intent, and no rule of strict construction shall be applied against any Person. The term “including” as used herein shall be by way of example and shall not be deemed to constitute a limitation of any term or provision contained herein.

XIV. ATTORNEY’S FEES AND COSTS. If an action at law or in equity is necessary to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to reasonable attorney’s fees, court costs and other expenses, in addition to any other relief to which such party may be entitled.

XV. NOTICES. All notices and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand, (b) sent by facsimile to a facsimile number given below, provided that a copy is sent by a nationally recognized overnight delivery service (receipt requested), or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case as follows:

| | |
|-----------------|-------------------------------|
| If to Employee: | Francis J. Cianciola |
| | 2177 Germantown Road South |
| | Germantown, TN 38138 |
| | Facsimile No.: (901) 312-4098 |

If to Peoples:

Mr. E. Robinson McGraw
President and CEO
The Peoples Holding Company
Post Office Box 709
209 Troy Street (38804)
Tupelo, MS 38802
Facsimile No.: (662) 680-1234

or to such other addresses as a party may designate by notice to the other parties.

XVI. ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, estate, legatees and legal representatives. The rights and obligations of the Company and Peoples under this Agreement may be assigned to or assumed by any other Person. Employees' rights or obligations hereunder may not be assigned to or assumed by any other Person. Any assignment by Peoples and/or the Company shall not affect the Employee's duties or responsibilities under this Agreement.

XVII. SEVERABILITY. Each provision of the Agreement is intended to be severable. In the event that any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable, the same shall not affect the validity or enforceability of any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein. Notwithstanding the foregoing, however, no provision shall be severed if it is clearly apparent under the circumstances that the parties would not have entered into the Agreement without such provision.

XVIII. SURVIVAL. The provisions of Sections 6 through 18 shall survive the termination of the employment period and to extent provided for in such sections, the provisions shall survive the termination of this Agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

EMPLOYEE

/s/ Francis J. Cianciola

Francis J. Cianciola

THE PEOPLES HOLDING COMPANY

By: /s/ E. Robinson McGraw

Name: E. Robinson McGraw

Title: President and Chief Executive Officer

SUBSIDIARIES OF THE COMPANY

| Name | Jurisdiction Of Incorporation/Organization | Holder of Outstanding Stock |
|----------------------------|-----------------------------------------------|--------------------------------|
| Peoples Merger Corporation | Tennessee | The Peoples Holding Company |
| Renasant Bank | Mississippi | Peoples Merger Corporation |
| Renasant Bank of Tennessee | Tennessee | Peoples Merger Corporation |
| Primeco, Inc. | Delaware | Renasant Bank |
| PHC Statutory Trust I | Connecticut | The Peoples Holding Company |
| PHC Statutory Trust II | Delaware | The Peoples Holding Company |
| Renasant Insurance, Inc. | Mississippi | Renasant Bank |
| Heritage Statutory Trust I | Connecticut | The Peoples Holding Company |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 33-20108, Form S-8 No. 333-102152, Form S-8 No. 333-122951, Form S-8 No. 333-122515, Form S-8 No. 333-122514, and Form S-8 No. 333-117987) of The Peoples Holding Company and the related Prospectus of our reports dated March 3, 2005, with respect to the consolidated financial statements of The Peoples Holding Company, The Peoples Holding Company's management assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of the Peoples Holding Company included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

Birmingham, Alabama
March 9, 2005

/s/ Ernst & Young LLP

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, E. Robinson McGraw, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2004 of The Peoples Holding Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's internal controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2005

by: /s/ E. Robinson McGraw

E. Robinson McGraw
President and
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 for the year ended December 31, 2004 of The Peoples Holding Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's internal controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2005

by: /s/ Stuart R. Johnson

Stuart R. Johnson
Executive Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of The Peoples Holding Company (the “Company”) for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, E. Robinson McGraw, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 14, 2005

by: /s/ E. Robinson McGraw

E. Robinson McGraw
President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of The Peoples Holding Company (the “Company”) for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stuart R. Johnson, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 14, 2005

by: /s/ Stuart R. Johnson

Stuart R. Johnson
Executive Vice President and
Chief Financial Officer