UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For fiscal year ended December 31, 1998
Commission file number 1-13253

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

Mississippi 64-0676974
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) identification No.)

209 Troy Street
Tupelo, Mississippi 38802-0709
(Address of principal offices) (Zip Code)

Registrant's Telephone Number: (601) 680-1001

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES__X___NO_____

Disclosure of delinquent filings pursuant to Item 405 of Regulation S-K will be contained in the registrant's proxy statement for its 1999 annual meeting of shareholders, which statement is incorporated by reference in Part III of this Form 10-K. Yes____ No__X__

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 23, 1999 was $197,981,489.

On March 23, 1999, there were 5,844,472 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1998 Annual Shareholders' Report are incorporated by reference into Parts I and II of this report.

Portions of annual Proxy Statement dated March 22, 1999, relating to the annual meeting of shareholders of The Peoples Holding Company, are incorporated by reference into Part III.

Exhibit Index on Page 17

THE PEOPLES HOLDING COMPANY

FORM 10-K

For the year ended December 31, 1998

CONTENTS

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

ITEM 1. BUSINESS

General

The Peoples Holding Company (the "Registrant" or "Company"), was organized under the laws of the State of Mississippi and incorporated on November 10, 1982, in order to acquire all of the common stock of The Peoples Bank & Trust Company, Tupelo, Mississippi (the "Bank").

Organization

The Registrant commenced business on July 1, 1983 and the acquisition of the Bank was also consummated at that time. All of the Registrant's banking activities are conducted through the Bank, which on December 31, 1998, had 41 banking offices in Tupelo, Aberdeen, Amory, Batesville, Booneville, Calhoun City, Coffeeville, Corinth, Grenada, Guntown, Hernando, Iuka, Louisville, New Albany, Okolona, Olive Branch, Plantersville, Pontotoc, Saltillo, Sardis, Shannon, Smithville, Southaven, Verona, Water Valley, West Point, and Winona, Mississippi.

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

The Bank, which is the Registrant's primary subsidiary, was established in February 1904, as a state chartered bank. It is insured by the Federal Deposit Insurance Corporation.

As a commercial bank, a complete range of banking and financial services are provided to individuals and small- to medium-size businesses. These services include checking and savings accounts, business and personal loans, interim construction and residential mortgage loans, student loans, equipment leasing, as well as safe deposit and night depository facilities. Automated teller machines located throughout our market area provide 24-hour banking services. The Bank also offers to its customers the VISA and MasterCard credit cards. Accounts receivable factoring is also available to qualified businesses. In addition to a wide variety of fiduciary services, the Bank administers (as trustee or in other fiduciary or representative capacities) pension, profit-sharing and other employee benefit plans and personal trusts and estates. The Company also offers annuities and mutual funds. Neither the Registrant nor the Bank has any foreign activities.

Competition

Vigorous competition exists in all major areas where the Registrant and its subsidiary are engaged in business. Not only does the Registrant compete through its subsidiary bank with state and national banks in its service areas, but also, with 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. Within the Registrant's market area, none of the competitors are dominant.

Supervision and Regulation

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

The Act requires every bank holding company to obtain prior approval of the Board before acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank which is not already majority-owned by the Registrant. The Act provides that the Board shall not approve any acquisition, merger or consolidation which would result in monopoly or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking, or any other transactions the effect of which might substantially lessen competition, or in any manner be a restraint on trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

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

The Act prohibits the acquisition by a bank holding company of more than 5% of the outstanding voting shares of a bank located outside the state in which the operations of its banking subsidiaries are principally conducted, unless such an acquisition is specifically authorized by statute of the state in which the bank to be acquired is located.

The Registrant and its subsidiary are subject to certain restrictions imposed by the Federal Reserve Act and the Federal Deposit Insurance Act on any extensions of credit to the bank holding company or its subsidiary, on investments in the stock or other securities of the bank holding company or its subsidiary, and on taking such stock or other securities as collateral for loans of any borrower.

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

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

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

Federal Reserve regulations also limit the amount the Bank may loan to the Company unless such loans are collateralized by specific obligations. At December 31, 1998, the maximum amount available for transfer from the Bank to the Company in the form of loans was 11% of consolidated net assets.

Mississippi laws authorize multi-bank holding companies but there are no statutes regulating the operation of such companies.

Monetary Policy and Economic Controls

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

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

In the past few years, the trend seems to be toward competitive equality within the financial services industry. This was evidenced in 1980 by the formation of the Depository Institution Deregulation Committee (the "DIDC"). The DIDC's sole purpose was to eliminate the restrictions imposed upon the rates of interest a depository institution could pay on a deposit account. The trend was again evidenced in 1982 with the passage of the Garn-St. Germain Depository Institutions Act. This act provided for, among other things, the money market account. This account was designed to operate in a manner similar to the money market mutual funds being offered by the investment brokers. It would earn a market rate of interest, with limited third-party withdrawals and a minimum balance requirement.

Source and Availability of Funds

The funds essential to the business of the Registrant and its subsidiary consist primarily of funds derived from customer deposits and borrowings of federal funds by the banking subsidiary, and from loans under established lines of credit. 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

Alex Sheshunoff Management Services completed a comprehensive strategic assessment of the Bank and designed an action plan to facilitate organization-wide structural changes. The action plan addressed operational costs, risk management, redundant activities, manual processes, under-utilized automation, and the future automation of inefficient work methods. With this move to automation came the need to displace selected jobs. Normal attrition, retirement, and our displacement schedule have reduced the Registrant's number of employees to 480 on a full-time basis at December 31, 1998.

Dependence Upon a Single Customer

Neither the Registrant nor its subsidiary is dependent upon a single customer or upon a limited number of customers.

Segment Reporting

The information under the caption "Note P - Segment Reporting" on Pages 19 and 20 of the Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

Acquisition of Certain Assets and Liabilities

In the past several years, the Bank has acquired several banks and continues to examine other possible candidates for acquisition by cash or stock or a combination of both. During December 1998, the Company entered into an agreement with Inter-City Federal Bank for Savings in Louisville, Mississippi, to acquire approximately $34,890,000 in loans and $38,530,000 in deposits. The information under the caption "Note B - Mergers and Acquisitions" on Page 10 of the Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

Executive Officers of The Registrant

The principal executive officer of the Company and its subsidiary as of December 31, 1998, is as follows:

Name	Age
John W. Smith	63

Position and Office: Director and Executive Vice President of the Company from July 1983 until August 1993; Director and President of the Company since August 1993, and Vice Chairman of the Board since April 1997. Director and Executive Vice President of the Bank from 1978 and 1976, respectively, until August 1993; Director, President, and Chief Executive Officer of the Bank since August 1993, and Vice Chairman of the Board since April 1997.

All of the Registrant's officers are appointed annually by the appropriate Board of Directors to serve at the discretion of the Board.

Net Interest Income

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

	1998 COMPARED TO 1997		
	INCREASE(DECREASE) DUE TO		
	VOLUME	RATE	NET (1)
	(In Thousands)		
Earning assets:			
Loans, net of unearned income	$ 5,390	$ (986)	$ 4,404
Securities			
U. S. government securities and agencies	(802)	(19)	(821)
Obligations of states and political subdivisions	928	(229)	699
Mortgage-backed securities	1,459	(296)	1,163
Other securities	13	4	17
Other	243	7	250
Total earning assets	$ 7,231	$ (1,519)	$ 5,712
Interest-bearing liabilities:			
Interest-bearing demand deposit accounts	$ (14)	$ 14	$ 0
Savings accounts	1,133	307	1,440
Time deposits	1,911	288	2,199
Other	183	17	200
Total interest-bearing liabilities	$ 3,213	$ 626	$ 3,839
Change in net interest income	$ 4,018	$ (2,145)	$ 1,873

(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.

1997 COMPARED TO 1996

	INCREASE(DECREASE) DUE TO		
	VOLUME	RATE	NET (1)
	(In Thousands)		
Earning assets:			
Loans, net of unearned income	$ 5,362	$ (292)	$ 5,070
Securities			
U. S. government securities and agencies	(199)	(62)	(261)
Obligations of states and political subdivisions	242	(56)	186
Mortgage-backed securities	1,158	(31)	1,127
Other securities	(25)	10	(15)
Other	(339)	8	(331)
Total earning assets	$ 6,199	$ (423)	$ 5,776
Interest-bearing liabilities:			
Interest-bearing demand deposit accounts	$ (1,042)	$ 32	$ (1,010)
Savings accounts	967	552	1,519
Time deposits	1,901	383	2,284
Other	558	209	767
Total interest-bearing liabilities	$ 2,384	$ 1,176	$ 3,560
Change in net interest income	$ 3,815	$ (1,599)	$ 2,216

(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.

Investment Portfolio

The following table sets forth the amortized cost of securities at the dates indicated:

	December 31 1998	1997	1996
	(In Thousands)		
U.S. Government and Agency Securities	$ 104,997	$ 110,683	$ 125,087
Obligations of State and Political Subdivisions	76,893	59,893	52,051
Other Securities	107,852	77,153	68,610
	$ 289,742	$ 247,729	$ 245,748

The following table sets forth the maturity distribution in thousands and weighted average yield by maturity of securities at December 31, 1998:

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
U.S Government and Agency Securities ...	$ 47,377	6.24%	$ 35,635	6.07%	$ 21,985	6.25%	$ 0	0.00%
Obligations of States and Political Subdivisions .	3,179	9.20%	14,668	8.50%	41,941	7.40%	17,105	7.40%
Other Securities	34,098	6.22%	51,157	6.19%	22,597	6.10%	0	0.00%
Total	$ 84,654		$101,460		$ 86,523		$ 17,105	

The maturity of mortgage-backed securities, included as other securities, reflects scheduled repayments when the payment is due.

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.

Loans Outstanding

The following table sets forth loans outstanding as of December 31, 1998, which based on remaining scheduled repayments of principal, are due in the periods indicated. Real estate mortgage loans and consumer loans are excluded, while net receivables on leased equipment are included in commercial, financial and agricultural loans in the consolidated financial statements. Also, amounts due after one year are classified according to their sensitivity to changing interest rates.

	Loans Maturing			
	Within One Year	After One But Within Five Years	After Five Years	Total
	(In Thousands)			
Commercial, financial and agricultural	$ 85,892	$ 37,725	$ 13,655	$ 137,272
Real estate-construction	22,767	2,641	154	25,562
	$ 108,659	$ 40,366	$ 13,809	$ 162,834

	Interest Sensitivity	
	Fixed Rate	Variable Rate
	(In Thousands)	
Due after 1 but within 5 years	$37,493	$ 2,873
Due after 5 years	13,772	37
	$51,265	$ 2,910

Allowance for Loan Losses

The allowance for loan losses provides coverage for losses inherent in the Company's loan portfolio. Management reviews the adequacy of the allowance for loan losses each quarter. The overall allowance is evaluated based on a continuing assessment of problem loans, historical loss experience, new lending products, emerging credit trends, changes in the size and character of loan categories, and other factors including its risk rating system, regulatory guidance and economic conditions. Management has determined that the allowance for loan losses is adequate, although financial market volatility, economic reversals or decreased corporate earnings could require an increase in the required allowance.

Management allocates the allowance for loan losses by loan category. Commercial, financial and agricultural and real estate - mortgage allocations are based on a quarterly review of individual loans outstanding and binding commitments to lend. Reserves are allocated based on actual loss experience and to credits with similar risk characteristics. Consumer loan allocations are based on an analysis of product mix, credit scoring, migration analyses, bankruptcy experience and historical and expected delinquency and charge-off statistics.

No portion of the allowance is restricted to any individual loan or group of loans, rather the entire allowance is restricted to absorb losses from the entire loan portfolio.

The Company also maintains an unallocated allowance to recognize the existence of other exposures, including but not limited to, the risk in concentrations to specific borrowers, financings of highly leveraged transactions, products or industries.

The following table presents the allocation of the allowance for loan losses by loan category at December 31 for each of the years presented:

	(In Thousands) Allowance for Loan Losses				
	1998	1997	1996	1995	1994
Commercial, financial, agricultural and real estate - mortgage	$ 7,382	$ 6,875	$ 6,681	$ 5,406	$ 4,924
Consumer	1,933	1,892	1,813	1,577	1,348
Unallocated	305	337	815	1,832	1,911
Total	$ 9,620	$ 9,104	$ 9,309	$ 8,815	$ 8,183

Time Deposits

The following table shows the maturity of time deposits over $100,000 in thousands.

Less than 3 Months	$ 41,765
3 Months- 6 Months	30,179
6 Months-12 Months	31,109
Over 12 Months	20,862
	$ 123,915

ITEM 2. PROPERTIES

The main offices of the Registrant and its subsidiary, The Peoples Bank and Trust Company, are located at 209 Troy Street, Tupelo, Mississippi. All floors of the five-story building are occupied by various departments within the Bank. The Technology Center located in Tupelo, Mississippi, houses the electronic data processing, proof, purchasing, and statement rendering. In addition, the Bank operated thirty-two (32) full-service branches, and nine (9) limited-service branches. The Bank has two (2) full-service branches in both Southaven and West Point; one (1) full-service branch and two (2) limited-service branches in Booneville; one (1) full-service branch and one (1) limited-service branch in Amory, Corinth, and Pontotoc; one (1) full-service branch each at Aberdeen, Batesville, Calhoun City, Coffeeville, Grenada, Guntown, Hernando, Iuka, Louisville, New Albany, Okolona, Saltillo, Sardis, Shannon, Verona, Water Valley and Winona, Mississippi; one (1) limited-service branch each at Olive Branch, Plantersville, and Smithville, Mississippi; and seven (7) full-service branches and one (1) limited-service branch in Tupelo, Mississippi.

The Registrant leases, on a long-term basis, two branch locations for use in conducting banking activities. The aggregate annual rental for all leased premises during the year ending December 31, 1998, did not exceed five percent of the Bank's operating expenses.

It is anticipated that in the next several years, branch renovations and construction will be completed at Corinth, Olive Branch, and a new location west of Tupelo, Mississippi. The other facilities owned or occupied under lease by the Bank are considered by management to be adequate.

ITEM 3. LEGAL PROCEEDINGS

There were no material legal proceedings pending or threatened at December 31, 1998, which in the opinion of the Company could have a material adverse effect upon the Company's business or financial position.

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

None during the fourth quarter of 1998.

PART II

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

The information under the captions "Market Value of Stock by Quarters" on Page 26 of the Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

At March 23, 1999, the total number of shareholders of the Company's common stock was 2,572.

The Registrant's common stock trades on the American Stock Exchange under the symbol PHC.

ITEM 6. SELECTED FINANCIAL DATA

The information under the caption "Selected Financial Information" on Page 25 of the Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

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

The information on Pages 26 through 39 of the Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Interest Rate Risk" on Pages 32 and 33 of the Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of independent auditors and consolidated financial statements are included on Pages 4 through 24 of the Registrant's 1998 Annual Report to Shareholders and are incorporated herein by reference.

The information on Page 23 of the Registrant's 1998 Annual Report to Shareholders reflecting unaudited quarterly results of operations is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors and nominees of the Registrant appear under "Election of Directors" on Pages 3 through 5 of the Company's definitive Proxy Statement, dated March 22, 1999, which is incorporated herein by reference.

Information concerning executive officers of the Registrant and its subsidiary appears on Page 6 under the caption "Executive Officers" of the Company's definitive Proxy Statement, dated March 22, 1999, which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under "Summary Compensation Table-Annual Compensation" on Pages 7 through 11 of the Company's definitive Proxy Statement, dated March 22, 1999, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing under "Principal Holders of Voting Security" on Page 3 of the Company's definitive Proxy Statement, dated March 22, 1999, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under "Transactions with Management" on Page 12 of the Company's definitive Proxy Statement, dated March 22, 1999, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) and (2) and (c) The response to this portion of Item 14 is submitted as a separate section of this report.

(3) Listing of Exhibits:

(3) Articles of Incorporation and Bylaws of the Registrant are incorporated herein by reference to exhibits filed with the Registration Statement on Form S-14, File No. 2-21776.

(13) Annual Report to Shareholders for the year ended December 31, 1998

(23) Consent of Independent Auditors

(27) Financial Data Schedule

(b) No Form 8-K was filed during the quarter ended December 31, 1998.

(d) Financial Statement Schedules -- None.

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.

THE PEOPLES HOLDING COMPANY

DATED: March 26, 1999	By /s/ John W. Smith
	John W. Smith, President & CEO

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.

John W. Smith, President and Director (Chief Executive Officer)	/s/ John W. Smith
Robert C. Leake, Chairman of the Board and Director	/s/ Robert C. Leake
William M. Beasley, Director ..	/s/ William M. Beasley
George H. Booth, II, Director .	/s/ George H. Booth, II
Frank B. Brooks, Director	/s/ Frank B. Brooks
John M. Creekmore, Director ...	/s/ John M. Creekmore
Marshall H. Dickerson, Director	/s/ Marshall H. Dickerson
A. M. Edwards, Jr., Director ..	/s/ A. M. Edwards, Jr.
Eugene B. Gifford, Jr., Director	/s/ Eugene B. Gifford, Jr.
C. Larry Michael, Director	/s/ C. Larry Michael
Jimmy S. Threldkeld, Director .	/s/ Jimmy S. Threldkeld
J. Heywood Washburn, Director .	/s/ J. Heywood Washburn
Robert H. Weaver, Director	/s/ Robert H. Weaver
J. Larry Young, Director	/s/ J. Larry Young

Form 10-K--Item 14 (a) (1) and (2)

THE PEOPLES HOLDING COMPANY AND SUBSIDIARY

LIST OF FINANCIAL STATEMENTS

The following consolidated financial statements and report of independent auditors of The Peoples Holding Company and subsidiary included in the Annual Report to Shareholders of the registrant for the year ended December 31, 1998, are incorporated by reference in Item 8.

Report of Independent Auditors

Consolidated Balance Sheets--December 31, 1998 and 1997

Consolidated Statements of Income--Years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Shareholders' Equity--Years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows--Years ended December 31, 1998, 1997, and 1996

Notes to Consolidated Financial Statements--December 31, 1998

Schedules to the consolidated financial statements required by Article 9 of Regulation S-X are not required under the related instructions or are not applicable and therefore, have been omitted.

Financial Statements

Consolidated Balance Sheets

	(In Thousands, Except Share Data) December 31	
	1998	1997
Assets		
Cash and due from banks	$ 32,944	$ 32,932
Federal funds sold	0	6,000
Cash and Cash Equivalents	31,944	38,932
Interest-bearing balances with banks	433	14,973
Securities held to maturity (market value - $78,585 and $60,556 at December 31, 1998 and 1997, respectively)	76,893	59,893
Securities available for sale (amortized cost - $212,849 and $187,836 at December 31, 1998 and 1997, respectively)	214,174	188,738
Loans		
Commercial, financial, and agricultural	137,272	120,412
Real estate - construction	25,562	24,365
Real estate - mortgage	382,179	344,212
Consumer	158,096	148,472
Unearned income	(8,826)	(9,515)
Total Loans, Net of Unearned Income	694,283	627,946
Allowance for loan losses	(9,620)	(9,104)
Net Loans	684,663	618,842
Premises and equipment, net	26,356	23,493
Other assets	28,902	26,184
Total Assets	$ 1,063,365	$ 971,055
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 149,433	$ 120,829
Interest-bearing	772,253	714,085
Total Deposits	921,686	834,914
Treasury tax and loan note account	2,455	6,101
Borrowings	19,567	18,454
Other liabilities	14,598	13,435
Total Liabilities	958,306	872,904
Shareholders' Equity		
Common stock, $5 par value, 15,000,000 shares authorized 5,844,472 and 5,859,472 issued and outstanding at December 31, 1998 and 1997, respectively	29,222	29,297
Additional paid-in capital	39,876	39,876
Accumulated other comprehensive income	830	566
Retained earnings	35,131	28,412
Total Shareholders' Equity	105,059	98,151
Total Liabilities and Shareholders' Equity	$ 1,063,365	$ 971,055

See notes to consolidated financial statements.

Consolidated Statements Of Income

	(In Thousands, Except Share Data) Year Ended December 31		
	1998	1997	1996
Interest income			
Loans	$ 60,054	$ 55,650	$ 50,580
Securities:			
Taxable	13,416	13,057	12,206
Tax-exempt	3,650	2,951	2,765
Other	793	543	874
Total Interest Income	77,913	72,201	66,425

Interest expense			
Deposits	34,179	30,540	27,747
Borrowings	1,464	1,264	497
Total Interest Expense	35,643	31,804	28,244
Net Interest Income	42,270	40,397	38,181
Provision for loan losses	2,563	2,280	2,813
Net Interest Income After Provision For Loan Losses	39,707	38,117	35,368
Noninterest income			
Service charges on deposit accounts	7,186	6,768	6,565
Fees and commissions	1,891	1,447	1,397
Trust revenue	846	719	643
Securities gains (losses)	61	(41)	110
Other	4,314	3,127	2,315
Total Noninterest Income	14,298	12,020	11,030
Noninterest expense			
Salaries and employee benefits	20,757	19,533	18,218
Net occupancy	2,683	2,599	2,269
Equipment	1,908	1,780	1,595
Other	12,778	11,097	10,748
Total Noninterest Expense	38,126	35,009	32,830
Income before income taxes	15,879	15,128	13,568
Income taxes	4,511	4,488	4,052
Net Income	$ 11,368	$ 10,640	$ 9,516
Basic and diluted earnings per share	$ 1.94	$ 1.82	$ 1.62
Weighted average shares outstanding	5,853,679	5,859,472	5,859,472

See notes to consolidated financial statements.

Consolidated Statements Of Shareholders' Equity
(In Thousands, Except Share Data)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 1996	2,604,760	$ 13,024	$ 39,876		$ 30,892	$ 1,169	$ 84,961
Net Income for 1996				$ 9,516	9,516		9,516
Other comprehensive income, net of tax:							
Unrealized losses on securities available for sale				(942)			(942)
Other comprehensive income				(942)		(942)	
Comprehensive income				$ 8,574			
Cash dividends ($.50 per share)					(2,950)		(2,950)
Stock split effected in the form of a stock dividend	1,301,915	6,509			(6,509)		
Payment of fractional shares for stock dividend					(24)		(24)
Balance at December 31, 1996	3,906,675	$ 19,533	$ 39,876		$ 30,925	$ 277	$ 90,561
Net Income for 1997				$ 10,640	10,640		10,640
Other comprehensive income, net of tax:							
Unrealized gains on securities available for sale				339			339
Other comprehensive income				339		339	
Comprehensive income				$ 10,979			
Cash dividends ($.57 per share)					(3,360)		(3,360)
Stock split effected in the form of a stock dividend	1,952,797	9,764			(9,764)		
Payment of fractional shares for stock dividend					(29)		(29)
Balance at December 31, 1997	5,859,472	$ 29,297	$ 39,876		$ 28,412	$ 566	$ 98,151
Net Income for 1998				$ 11,368	11,368		11,368
Other comprehensive income, net of tax:							
Unrealized gains on securities available for sale, net of reclassification adjustment				264			264
Other comprehensive income				264		264	
Comprehensive income				$ 11,632			
Cash dividends ($.72 per share)					(4,184)		(4,184)
Treasury stock purchased and retired	(15,000)	(75)			(465)		(540)
Balance at December 31, 1998	5,844,472	$ 29,222	$ 39,876		$ 35,131	$ 830	$ 105,059

Disclosure of 1998 reclassification amount:

Unrealized holding gains arising during period	$ 322
Less: reclassification adjustment for gains included in net income	(58)
Net unrealized gains on securities	$ 264

See notes to consolidated financial statements.

Consolidated Statements Of Cash Flows

	1998	1997	1996
(In Thousands, Except Share Data) Year Ended December 31			
Operating Activities			
Net income	$ 11,368	$ 10,640	$ 9,516
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,563	2,280	2,813
Provision for depreciation and amortization	2,593	2,330	2,179
Net amortization of securities premiums/discounts	795	342	71
(Gains) losses on sale of loans	(797)	(323)	
(Gains) losses on sales/calls of securities	61	41	(110)
Increase in other liabilities	1,440	1,277	1,677
Deferred income tax benefit	(423)	(243)	(179)
(Gains) losses on sales of premises and equipment	157	233	(16)
Increase in other assets	(2,486)	(2,300)	(986)
Net Cash Provided By Operating Activities	15,271	14,277	14,965
Investing Activities			
Net (increase) decrease in balances with other banks	14,540	(13,149)	6,990
Proceeds from sales of securities available for sale	16,242	48,988	32,600
Proceeds from maturities/calls of securities held to maturity	4,796	4,245	2,997
Proceeds from maturities/calls of securities available for sale	63,692	71,322	54,505
Purchases of securities held to maturity	(21,739)	(12,552)	(9,424)
Purchases of securities available for sale	(105,184)	(114,367)	(114,018)
Net increase in loans	(150,451)	(101,773)	(43,982)
Proceeds from sale of loans	81,333	33,290	
Proceeds from sales of premises and equipment	272	62	122
Purchases of premises and equipment	(5,274)	(3,996)	(2,937)
Net Cash Used In Investing Activities	(101,773)	(87,930)	(73,147)
Financing Activities			
Net increase in noninterest-bearing deposits	28,604	2,190	1,744
Net increase in interest-bearing deposits	58,168	59,882	31,553
Net increase (decrease) in short-term borrowings	(1,146)	(253)	3,954
Net increase (decrease) in other borrowings	(1,388)	7,280	6,861
Cash dividends paid	(4,184)	(3,360)	(2,950)
Cash paid on fractional shares for stock dividend		(29)	(24)
Acquisition of treasury stock	(540)		
Net Cash Provided By Financing Activities	79,514	65,710	41,138
Increase (Decrease) In Cash and Cash Equivalents	(6,988)	(7,943)	(17,044)
Cash and Cash Equivalents at Beginning of Year	38,932	46,875	63,919
Cash and Cash Equivalents at End of Year	$ 31,944	$ 38,932	$ 46,875
Non-Cash Transactions			
Transfer of loans to other real estate	$ 1,531	$ 1,128	$ 1,224

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements December 31, 1998
(In Thousands, Except Share Data)

Note A - Significant Accounting Policies

The Peoples Holding Company (the Company) is a one-bank holding company, offering a diversified range of banking services to retail and commercial customers, primarily in North Mississippi, through The Peoples Bank & Trust Company (the Bank). The accounting and reporting policies of the Company conform to generally accepted accounting principles and general practices within the financial services industry.

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

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

The amortized cost of securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion is included in interest income from securities. Stock dividends are 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.

Revenue Recognition: Interest on loans is accrued and credited to operations based upon the principal amount outstanding. 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 become contractually 90 days past due unless the obligation is both well secured and in the process of collection. The Company recognizes loan origination and commitment fees in the period the loan or commitment is granted to reflect reimbursement of the related costs associated with originating those loans and commitments. This method is not materially different from the results which would be obtained had the Company implemented Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

Allowance for Loan Losses: The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed uncollectible are charged against the allowance for loan losses, and any subsequent recoveries are credited to the allowance.

The allowance for loan losses related to loans that are identified for evaluation in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," which was amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures," is based on discounted cash flows using the loan's initial effective interest rate or fair value of the collateral for certain collateral-dependent loans. The allowance for loan losses is maintained at a level believed adequate by management to absorb inherent losses in the loan portfolio. Management's determination of the allowance is based on an evaluation of the portfolio, past experience, current economic conditions, volume, growth, composition of the loan portfolio, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change.

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

Other Real Estate: Other real estate of $907 and $774 at December 31, 1998 and 1997, 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 less estimated selling costs. Losses arising from the acquisition of properties are charged against the allowance for loan losses. The net cost of holding other real estate and losses (gains) on the sale of properties totaled ($26), $150, and $410 for the years ending December 31, 1998, 1997, and 1996, respectively.

Unamortized Cost in Excess of Fair Value of Net Assets Acquired: Goodwill, included in other assets, represents unamortized cost in excess of fair value of net assets acquired and is being amortized on the straight-line method over 13 to 15 years. Goodwill was $5,357 and $5,886 at December 31, 1998 and 1997, respectively. Total amortization of intangible assets was $602 for the year ending December 31, 1998, and $566 for the year ending December 31, 1997.

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 amortized in proportion to, and over the period of estimated net servicing income. The fair value of mortgage servicing rights is determined using assumptions that market participants would use in estimating future net servicing income. Mortgage servicing rights are stratified by loan type (government or conventional) and interest rate for purposes of measuring impairment on a quarterly basis. An impairment loss is recognized to the extent by which the unamortized capitalized mortgage servicing rights for each stratum exceeds the current fair value.

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

Earnings Per Share: Basic and diluted earnings per share is calculated in accordance with SFAS No. 128, "Earnings Per Share." All earnings per share amounts for all periods have been presented to conform to the requirements of SFAS No. 128.

Statements of Cash Flows: Cash equivalents include cash and due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. During 1998, 1997, and 1996, cash paid for interest was $35,735, $31,349, and $27,951, respectively. During 1998, 1997, and 1996, cash paid for income taxes was $5,187, $5,091, and $3,245, respectively.

Impact of Recently Issued Accounting Standards: In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 1999. Because the Company does not currently use derivatives or intend to use derivatives, the adoption of this Statement will not have an impact on earnings or the financial position of the Company.

Note B - Mergers and Acquisitions

On December 14, 1998, the Company entered into an agreement to merge with Inter-City Federal Bank for Savings (Inter-City) located in Louisville, Mississippi. On December 31, 1998, total assets, loans, and deposits for Inter-City totaled $44,368, $34,890, and $38,530, respectively. The transaction is expected to be accounted for as a pooling of interests. The exchange ratio will be 2.78 shares of the Company for each share of Inter-City (approximately 347,405 shares). The transaction is expected to be consummated in March 1999.

Effective October 1997, the Company purchased approximately $11,036 of selected assets and assumed approximately $15,232 of deposit liabilities from one branch office of Magnolia Federal Bank for Savings located in Grenada, Mississippi. Goodwill of approximately $2,123 was recorded in connection with this acquisition.

Note C - Disclosures About Fair Value of Financial Instruments

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.

Federal Funds Sold: The carrying amount reported in the consolidated balance sheet for federal funds sold 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 by discounting cash flows based on currently effective interest rates for similar types of accounts.

Treasury Tax And Loan Note Account: The carrying amounts reported in the consolidated balance sheet approximate the fair value.

Borrowings: The fair value was determined by discounting cash flows using the current market rate.

Off-Balance Sheet: Off-balance-sheet items are primarily short-term commitments, often at variable rates which are tied to prime.

	December 31			
	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	$ 31,944	$ 31,944	$ 32,932	$ 32,932
Federal funds sold			6,000	6,000
Interest-bearing balances with banks	433	433	14,973	14,973
Securities	291,067	292,759	248,631	249,294
Loans net of unearned income	694,283	700,074	627,946	629,981
Allowance for loan losses	(9,620)	(9,620)	(9,104)	(9,104)
Net loans	684,663	690,454	618,842	620,877
Financial liabilities				
Deposits	921,686	923,648	834,914	834,438
Treasury tax and loan note account	2,455	2,455	6,101	6,101
Borrowings	19,567	19,745	18,454	18,447

Note D - Restrictions on Cash and Due From Banks

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. The average amounts of those balances for the years ended December 31, 1998 and 1997, were approximately $13,618 and $12,953, respectively.

Note E - Securities

The amortized cost and estimated fair values of securities held to maturity and available for sale at December 31, 1998, are as follows:

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Values
Obligations of states and political subdivisions.....	$ 76,893	$ 1,855	$ (163)	$ 78,585

	Securities Available For Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Values
U.S. Treasury securities	$ 54,397	$ 432	$	$ 54,829
Obligations of other U.S. Government agencies and corporations .	50,600	378	(10)	50,968
Mortgage-backed securities	104,788	675	(150)	105,313
Preferred stock	3,064			3,064
	$ 212,849	$ 1,485	$ (160)	$ 214,174

The amortized cost and estimated market values of securities held to maturity and available for sale at December 31, 1997, are as follows:

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Values
Obligations of states and political subdivisions.....	$ 59,893	$ 986	$ (323)	$ 60,556

	Securities Available For Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Values
U.S. Treasury securities	$ 70,634	$ 352	$ (11)	$ 70,975
Obligations of other U.S. Government agencies and corporations .	40,049	116	(36)	40,129
Mortgage-backed securities	74,266	572	(91)	74,747
Preferred stock	2,887			2,887
	$ 187,836	$ 1,040	$ (138)	$ 188,738

The amortized cost and estimated market value of securities held to maturity and available for sale at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities Held to Maturity	Amortized Cost	Estimated Market Value
Due in one year or less	$ 3,179	$ 3,201
Due after one year through five years	14,668	15,029
Due after five years through ten years	41,941	43,094
Due after ten years	17,105	17,261
	$ 76,893	$ 78,585

Securities Available for Sale	Amortized Cost	Estimated Market Value
Due in one year or less	$ 47,377	$ 47,693
Due after one year through five years	35,635	35,938
Due after five years through ten years	21,985	22,166
	104,997	105,797
Mortgage-backed securities	104,788	105,313
Preferred stock	3,064	3,064
	$ 212,849	$ 214,174

At December 31, 1998 and 1997, securities with an amortized cost of approximately $167,208 and $157,285, respectively, were pledged to secure government, public, and trust deposits.

Note F - Deposits

Deposit accounts are summarized as follows:

	December 31 1998	December 31 1997
Noninterest-bearing	$149,433	$120,829
Interest-bearing DDA	71,242	70,907
Savings accounts	44,501	44,770
Money Market accounts	194,837	139,584
Certificates of deposit exceeding $100,000	123,915	106,952
Other time deposits	337,758	351,872
Total	$921,686	$834,914

At December 31, 1998, the approximate scheduled maturities of time deposits are as follows:

	(In Thousands)
1999	$ 350,169
2000	74,780
2001	18,661
2002	10,810
2003 and thereafter	7,253
Total	$ 461,673

Note G - Borrowings

Borrowings primarily consist of balances due to the Federal Home Loan Bank of $17,067 and $18,452 at December 31, 1998 and 1997, respectively.

During 1998, the Company obtained from the Federal Home Loan Bank an advance totaling $1,000, with an interest rate of 6.03% and a maturity date of June 2, 2008. During 1997, the Company obtained four advances from the Federal Home Loan Bank totaling $9,400. These advances were $5,000, $400, $500, and $3,500, with interest rates of 6.44%, 6.44%, 6.34%, and 6.46%, respectively. Maturity dates are February 1, 2007, August 3, 2009, November 1, 2007, and January 1, 2018, respectively. All advances are secured by one-to-four family first mortgages.

Future minimum payments, by year and in the aggregate, related to the Federal Home Loan Bank advances with initial or remaining terms of one year or more, consisted of the following at December 31, 1998:

1999	$ 2,247
2000	1,502
2001	4,422
2002	3,553
2003	563
Thereafter	4,780
Total	$ 17,067

Note H - Loans to Related Parties

Certain Bank executive officers and directors and their associates are customers of and have other transactions with the Bank. Related party loans and commitments are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than a normal risk of collectibility. The aggregate dollar amount of these loans was $10,551 and $2,807 at December 31, 1998 and 1997, respectively. During 1998, $14,854 of new loans were made and payments received totaled $7,110. Total deposits for these related parties at December 31, 1998, were approximately $2,675.

Note I - Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	Year Ended December 31		
	1998	1997	1996
Balance at beginning of year	$ 9,104	$ 9,309	$ 8,815
Charge-offs	(2,514)	(3,043)	(2,593)
Recoveries	467	558	274
Net Charge-offs	(2,047)	(2,485)	(2,319)
Provision for loan losses	2,563	2,280	2,813
Balance at End of Year	$ 9,620	$ 9,104	$ 9,309

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

	Year Ended December 31		
	1998	1997	1996
Impaired loans with a related allowance for loan losses	$ 3,212	$ 2,486	$ 2,946
Impaired loans without a specific allowance for loan losses	1,061	891	1,057
Total impaired loans	$ 4,273	$ 3,377	$ 4,003
Specific allowance for loan losses for impaired loans	$ 1,127	$ 778	$ 734
Average recorded investment in impaired loans	$ 3,825	$ 3,690	$ 3,439
Interest income recognized using the accrual basis of income recognition	$ 340	$ 237	$ 336
Interest income recognized using the cash basis of income recognition	13	18	70
Total interest income recognized on impaired loans	$ 353	$ 255	$ 406

Note J - Nonaccrual and Past Due Loans

Nonaccrual and past due loans were as follows:

	December 31	
	1998	1997
Nonaccrual loans outstanding	$ 204	$ 1,070
Accruing loans past due 90 days or more outstanding	3,249	3,466

At December 31, 1998 and 1997, there were no significant commitments to lend any of these debtors additional funds.

Note K - Premises and Equipment

Premises and equipment accounts are summarized as follows:

	December 31	
	1998	1997
Land	$ 5,662	$ 5,185
Premises	21,898	19,423
Equipment, furniture, and fixtures	16,231	13,880
Construction in progress	666	1,009
	44,457	39,497
Accumulated depreciation and amortization	(18,101)	(16,004)
	$ 26,356	$ 23,493
Depreciation expense	$ 1,991	$ 1,768

Note L - Income Taxes

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, 1998 and 1997, are as follows:

	(In Thousands) 1998	1997
Deferred tax assets		
Allowance for loan losses	$ 3,588	$ 3,396
Deferred compensation	1,415	1,298
Other	449	267
Total deferred tax assets	5,452	4,961
Deferred tax liabilities		
Depreciation	1,254	1,245
Net unrealized gains on securities available for sale	495	337
Other	852	793
Total deferred tax liabilities	2,601	2,375
Net deferred tax assets at end of year	$ 2,851	$ 2,586

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

	1998	1997	1996
Allocated to net income:			
Current			
Federal	$ 4,485	$ 4,311	$ 3,902
State	449	420	329
	4,934	4,731	4,231
Deferred			
Federal	(368)	(210)	(155)
State	(55)	(33)	(24)
	(423)	(243)	(179)
	$ 4,511	$ 4,488	$ 4,052
Allocated to other comprehensive income:			
Deferred			
Federal	$ 137	$ 175	$ (473)
State	21	27	(74)
	$ 158	$ 202	$ (547)

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

	1998		1997		1996	
Tax at U.S. statutory rate	$ 5,558	35.0%	$ 5,295	35.0%	$ 4,749	35.0%
Tax-exempt interest income	(1,498)	(9.4%)	(1,201)	(7.9%)	(1,047)	(7.7%)
State income tax, net of federal deduction	255	1.6%	252	1.7%	199	1.5%
Amortization of intangible assets	27	0.2%	58	0.4%	71	0.5%
Dividends received deduction	(12)	(0.1%)	(11)	(0.1%)	(16)	(0.1%)
Other items - net	181	1.1%	95	0.6%	96	0.7%
	$ 4,511	28.4%	$ 4,488	29.7%	$ 4,052	29.9%

Note M - Restrictions on Bank Dividends, Loans, or Advances

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans, or advances. The approval of the Mississippi Department of Banking and Consumer Finance is required prior to the Bank paying dividends, which are limited to earned surplus in excess of three times the Bank's capital stock. At December 31, 1998, the unrestricted surplus was approximately $88,615.

Federal Reserve regulations also limit the amount the Bank may loan to the Company unless such loans are collateralized by specified obligations. At December 31, 1998, the maximum amount available for transfer from the Bank to the Company in the form of loans was 11% of consolidated net assets. There were no loans outstanding from the Bank to the Company at December 31, 1998.

Note N - Employee Benefit Plans

The Company and its Bank sponsor a defined benefit noncontributory pension plan, The Peoples Bank & Trust Company Amended and Restated Pension Plan (the Plan), generally covering all full-time employees completing a minimum of one thousand hours of service during a twelve month period. The plan was not open to new participants after December 31, 1996. Effective August 1, 1996, an early retirement window was implemented. Effective December 31, 1996, future benefit accruals were eliminated, and the benefits were frozen as of that date. The curtailment and early retirement window were accounted for under the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The normal retirement benefit, one-twelfth of which is payable monthly for life with 120 payments guaranteed, is determined as the sum of (A) 1.4% of average earnings, plus (B) 0.6% of average earnings in excess of covered compensation, times (C) years of service at retirement limited to 25, and compensation in both (A) and (B) are limited by Section 401 (a) (17) of the Internal Revenue Code as amended.

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. There were significant matters affecting comparability of net periodic pension cost and other information for the year ended December 31, 1996. The SFAS No. 88 cost for the early retirement window was $452. The curtailment reduced the projected benefit obligation by $3,539. All unrecognized gain/loss, transition assets, and prior service cost were recognized. The SFAS No. 88 impact for the curtailment was an increase to income of $729 in 1996.

Net periodic post retirement benefit cost was also affected by changes made for the year ended December 31, 1996. A curtailment resulted from special termination benefits offered in 1996, in the form of an early retirement window, to employees who would attain a certain age and number of service years by December 31, 1996. The effect of the curtailment decreased the unrecognized net gain by $57 and resulted in special termination benefits expense of $44.

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

The Company has limited its liability for the rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) to the rate of inflation assumed to be 4% each year. The health care cost trend rate assumption has little effect on the amounts reported. For example, increasing or decreasing the assumed health care cost trend rates by one percentage point in each year would not increase or decrease the accumulated postretirement benefit obligation nor the service and interest cost components of net periodic postretirement benefit cost as of December 31, 1998, and for the year then ended.

The following table sets forth the required disclosures. Pension Benefits represents the pension plan offered by the Bank and Other Benefits represents the postretirement medical plan. There is no additional minimum pension liability required to be recognized.

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at beginning of year	$ 11,237	$ 9,600	$ 442	$ 423
Service cost			27	25
Interest cost	820	789	31	32
Plan participants' contributions			29	28
Actuarial gain (loss)	914	1,368	65	(4)
Benefits paid	(554)	(520)	(139)	(62)
Benefit obligation at end of year	$ 12,417	$ 11,237	$ 455	$ 442
Change in plan assets				
Fair value of plan assets at beginning of year	$ 12,096	$ 10,947		
Actual return on plan assets	1,473	1,669		
Benefits paid	(554)	(520)		
Fair value of plan assets at end of year	$ 13,015	$ 12,096		
Funded (underfunded) status	$ 598	$ 859	$ (455)	$ (442)
Unrecognized net actuarial (gain) loss	568	178	34	(32)
Unamortized prior service cost	320	349		
Prepaid (accrued) benefit cost	$ 1,486	$ 1,386	$ (421)	$ (474)
Weighted-average assumptions as of December 31				
Discount rate	7.0%	7.5%	7.0%	7.5%
Expected return on plan assets	8.0%	8.0%	N/A	N/A
Actual return on plan assets	11.7%	14.5%	N/A	N/A

	Pension Benefits			Other Benefits		
	Year Ended December 31			Year Ended December 31		
	1998	1997	1996	1998	1997	1996
Components of net periodic benefit cost (income)						
Service cost	$	$	$ 543	$ 27	$ 25	$ 23
Interest cost	820	789	918	31	32	25
Expected return on plan assets	(950)	(859)	(842)			
Prior service cost recognized	30	30				
Special termination benefits cost						44
Net periodic benefit cost (income)	$ (100)	$ (40)	$ 619	$ 58	$ 57	$ 92

Effective January 1, 1997, the Company adopted two defined contribution plans: a money purchase pension plan and a 401(k) plan. The money purchase pension plan is a noncontributory pension plan. The Company contributes 5% of compensation for each participant annually into this plan. The Company contributed $738 and $651 to the money purchase pension plan in 1998 and 1997, respectively. The 401(k) plan is a contributory plan. Employees may contribute up to 10% of pre-tax earnings into this plan. In addition, the Company provides for a matching contribution up to 3% of compensation for each employee who has attained age 21 and completes a year of service and is employed on the last day of the plan year. The Company's costs related to the 401(k) plan in 1998 and 1997, were $381 and $369, respectively.

The Company and its subsidiary also sponsor an employee stock ownership plan covering substantially all full-time employees who are 21 years of age and have completed one year of employment. Contributions are determined by the Board of Directors and may be paid in either cash or the Company's common stock. Total contributions to the Plan charged to operating expenses were $300, $100, and $325 in 1998, 1997, and 1996, respectively.

Note O - Other Noninterest Expenses

Components of other noninterest expenses which exceed 1% of total revenues were as follows:

	1998	1997	1996
Noninterest Expense			
Computer processing cost	$ 3,296	$ 2,740	$ 2,388
FDIC/state banking assessments			786
Stationery and supplies	1,696		

Note P - Segment Reporting

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the reporting of financial information from operating segments in annual and interim financial statements. SFAS No. 131 requires that financial information be reported on the same basis that it is reported internally for evaluating segment performance and allocating resources to segments. Because SFAS No. 131 addresses how supplemental financial information is disclosed in annual and interim reports, its adoption in 1998 had no impact on the financial condition or operating results of the Company.

The Peoples Holding Company has defined two reportable segments: branches and specialized products. Branches offer commercial, consumer, and mortgage loans as well as a full range of deposit services. Specialized products include leasing, student loans, credit cards, accounts receivable factoring, trust services, and financial investment alternatives.

The Company evaluates performance based on profit or loss from operations. The reportable segments do not receive any allocations for income taxes or gains and losses from security sales. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intersegment transfers are recorded at cost; there is no intercompany profit or loss on these transfers. There are no intercompany receivables.

Branches are defined as a reportable segment because, while they offer a variety of products, they offer the same set of products, use the same delivery system, and are evaluated by the same set of standards. Specialized products are grouped together, not because of similarities in the products, but because of the delivery system which is largely marketed through branch referrals and the immateriality of the revenue generated by each division separately. The similarity in these is that they are all specialized financial services products which must be supported by experts.

Year ended December 31, 1998	Branches	Specialized Products	All Other	Total
Net interest income	$ 38,700	$ 3,519	$ 51	$ 42,270
Provision for loan losses	1,679	714	170	2,563
Net interest income after provision for loan losses	37,021	2,805	(119)	39,707
Noninterest income	9,801	4,233	264	14,298
Noninterest expense	23,618	5,275	9,233	38,126
Income before income taxes	23,204	1,763	(9,088)	15,879
Income taxes			4,511	4,511
Net income	$ 23,204	$ 1,763	$ (13,599)	$ 11,368
Intersegment revenue (expense) ..	$ 517	$ (517)	$	$
Segment assets	$ 851,218	$ 91,385	$ 120,762	$ 1,063,365

Year ended December 31, 1997	Branches	Specialized Products	All Other	Total
Net interest income	$ 36,976	$ 3,372	$ 49	$ 40,397
Provision for loan losses	1,799	375	106	2,280
Net interest income after provision for loan losses	35,177	2,997	(57)	38,117
Noninterest income	9,323	2,590	107	12,020
Noninterest expense	22,091	4,948	7,970	35,009
Income before income taxes	22,409	639	(7,920)	15,128
Income taxes			4,488	4,488
Net income	$ 22,409	$ 639	$ (12,408)	$ 10,640
Intersegment revenue (expense) ..	$ 629	$ (629)	$	$
Segment assets	$ 773,090	$ 77,723	$ 120,242	$ 971,055

Year ended December 31, 1996	Branches	Specialized Products	All Other	Total
Net interest income	$ 35,180	$ 2,958	$ 43	$ 38,181
Provision for loan losses	2,345	330	138	2,813
Net interest income after provision for loan losses	32,835	2,628	(95)	35,368
Noninterest income	8,051	2,789	190	11,030
Noninterest expense	21,057	4,047	7,726	32,830
Income before income taxes	19,829	1,370	(7,631)	13,568
Income taxes			4,052	4,052
Net income	$ 19,829	$ 1,370	$ (11,683)	$ 9,516
Intersegment revenue (expense)	$ 51	$ (51)	$	$
Segment assets	$ 732,434	$ 54,772	$ 105,883	$ 893,089

Note Q - Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

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

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

The Company's unfunded loan commitments (unfunded loans and unused lines of credit) and standby letters of credit outstanding at December 31, 1998, were approximately $198,449 and $13,207, respectively, compared to $162,751 and $11,703, respectively, at December 31, 1997.

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

Note R - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios. All banks are required to have core capital (Tier I) of at least 4% of risk-weighted assets (as defined), 4% of average assets (as defined), and total capital of 8% of risk-weighted assets (as defined). Management believes, as of December 31, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1998, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios of 10%, 6%, and 5%, respectively. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and applicable ratios are as follows:

	Actual	
	Amount	Ratio
As of December 31, 1998		
Total Capital (to Risk Weighted Assets)	$107,338	15.1%
Tier I Capital (to Risk Weighted Assets)	$ 98,426	13.8%
Tier I Capital (to Average Assets)	$ 98,426	9.3%
As of December 31, 1997		
Total Capital (to Risk Weighted Assets)	$ 99,223	15.7%
Tier I Capital (to Risk Weighted Assets)	$ 91,315	14.5%
Tier I Capital (to Average Assets)	$ 91,315	9.9%

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

Balance Sheets

	December 31	
	1998	1997
Assets		
Cash*	$ 42	$ 59
Dividends receivable*	1,110	859
Investment in bank subsidiary*	105,133	98,243
Total Assets	$106,285	$ 99,161
Liabilities and Shareholders' Equity		
Dividends payable	$ 1,110	$ 859
Accrued interest payable and other liabilities	116	151
Shareholders' equity	105,059	98,151
Total Liabilities and Shareholders' Equity	$106,285	$ 99,161

Statements of Income

	Year Ended December 31		
	1998	1997	1996
Income			
Dividends from bank subsidiary*	$ 4,863	$ 3,360	$ 3,050
Other dividends	51	46	41
Other income		1	
Interest income from bank subsidiary*		2	2
	4,914	3,409	3,093
Expenses			
Other	256	251	177
Income before income tax credits and equity in undistributed net income of bank subsidiary	4,658	3,158	2,916
Income tax credits	(84)	(86)	(61)
	4,742	3,244	2,977
Equity in undistributed net income of bank subsidiary*	6,626	7,396	6,539
Net Income	$11,368	$10,640	$ 9,516

Statements of Cash Flows

	Year Ended December 31		
	1998	1997	1996
Operating Activities			
Net income	$ 11,368	$ 10,640	$ 9,516
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiary	(6,626)	(7,396)	(6,539)
Increase in dividends receivable	(251)	(78)	(98)
Increase in other liabilities	216	159	105
Net Cash Provided By Operating Activities	4,707	3,325	2,984
Investing Activities			
Maturities (purchases) of certificates of deposit		86	(5)
Net Cash Provided By (Used In) Investing Activities		86	(5)
Financing Activities			
Cash dividends	(4,184)	(3,360)	(2,950)
Payment of fractional shares on stock dividend		(29)	(24)
Purchase of treasury stock	(540)		
Net Cash Used In Financing Activities	(4,724)	(3,389)	(2,974)
Increase In Cash	(17)	22	5
Cash At Beginning Of Year	59	37	32
Cash At End Of Year	$ 42	$ 59	$ 37

*Eliminated in consolidation.

Note T - Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 1998 and 1997:

	Three Months Ended			
	Mar 31	June 30	Sept 30	Dec 31
1998				
Interest income	$ 18,882	$ 19,349	$ 19,733	$ 19,949
Interest expense	8,528	8,823	9,133	9,159
Net interest income	10,354	10,526	10,600	10,790
Provision for loan losses	641	641	640	641
Noninterest income	3,391	3,353	3,595	3,959
Noninterest expense	9,085	9,488	9,451	10,102
Income before income taxes	4,019	3,750	4,104	4,006
Income taxes	1,165	1,035	1,170	1,141
Net income	2,854	2,715	2,934	2,865
Basic and diluted earnings per share	$ .49	$ .46	$ .50	$ .49
1997				
Interest income	$ 17,259	$ 17,908	$ 18,370	$ 18,664
Interest expense	7,433	7,869	8,156	8,346
Net interest income	9,826	10,039	10,214	10,318
Provision for loan losses	570	570	570	570
Noninterest income	2,850	2,858	3,059	3,253
Noninterest expense	8,352	8,626	9,099	8,932
Income before income taxes	3,754	3,701	3,604	4,069
Income taxes	1,153	1,071	1,057	1,207
Net income	2,601	2,630	2,547	2,862
Basic and diluted earnings per share	$ .44	$ .45	$ .44	$ .49

Note U - Contingent Liabilities

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of The Peoples Holding Company and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Memphis, Tennessee
January 22, 1999

/s/ Ernst & Young LLP

Selected Financial Information
(Not covered by Report of Independent Auditors)

	1998	1997	1996	1995	1994
	(In Thousands, Except Share Data)				
For the year ended December 31					
Interest Income ....$	77,913	$ 72,201	$ 66,425	$ 63,009	$ 53,069
Interest Expense	35,643	31,804	28,244	25,621	18,890
Provision for Loan Losses ...	2,563	2,280	2,813	2,827	2,001
Noninterest Income	14,298	12,020	11,030	10,740	9,829
Noninterest Expense	38,126	35,009	32,830	32,166	31,177
Income Before Taxes	15,879	15,128	13,568	13,135	10,830
Income Taxes	4,511	4,488	4,052	3,931	2,621
Net Income	11,368	10,640	9,516	9,204	8,209
Per Common Share					
Net Income ....$	1.94	$ 1.82	$ 1.62	$ 1.57	$ 1.40
Book Value at December 31 ...	17.98	16.75	15.46	14.50	12.58
Market Value at December 31 .	32.25	35.67	24.50	19.55	15.55
Cash Dividends Declared and Paid	.72	.57	.50	.46	.40
Total at Year-End					
Loans, Net of Unearned Income ....$	694,283	$ 627,946	$ 562,753	$ 522,314	$ 502,048
Allowance for Loan Losses ...	9,620	9,104	9,309	8,815	8,183
Securities	291,067	248,631	246,110	214,219	210,148
Assets	1,063,365	971,055	893,089	841,699	787,066
Deposits	921,686	834,914	772,842	739,545	696,280
Borrowings	19,567	18,454	11,175	4,313	4,650
Shareholders' Equity	105,059	98,151	90,561	84,960	73,734
Selected Ratios					
Return on Average					
Total Assets	1.11%	1.14%	1.10%	1.13%	1.05%
Shareholders' Equity	11.08%	11.25%	10.88%	11.45%	11.24%
Average Shareholders' Equity to Average Assets	10.00%	10.15%	10.07%	9.83%	9.34%
At December 31					
Shareholders' Equity to Assets	9.88%	10.11%	10.14%	10.09%	9.37%
Tier 1 Leverage	9.33%	9.86%	9.91%	9.67%	9.22%
Risk-Based Capital Ratios					
Tier 1	13.82%	14.46%	15.10%	14.87%	14.86%
Total (8.00% Required) ..	15.07%	15.71%	16.35%	16.14%	16.12%
Allowance for Loan Losses to Total Loans	1.39%	1.45%	1.65%	1.69%	1.63%
Allowance for Loan Losses to Nonperforming Loans ..	278.60%	200.71%	211.47%	257.00%	394.55%
Nonperforming Loans to Total Loans	.50%	.72%	.78%	.66%	.41%
Dividend Payout	36.81%	31.58%	31.00%	29.07%	28.54%

Market Value of Stock by Quarters

The public market for The Peoples Holding Company common stock is limited. Effective August 18, 1997, the stock began trading on the American Stock Exchange under the ticker symbol PHC. Previously, the stock was listed on the National Association of Securities Dealers Automated Quotations system (NASDAQ) and was traded in the local over-the-counter market. High and low prices for the first and second quarter of 1997 are reflective of actual trades as reported in the NASDAQ Stock Bulletin. High and low prices for the third and fourth quarters of 1997 and all of 1998 are reflective of actual trades as reported by the American Stock Exchange. Dividends per share and market prices have been adjusted to reflect the fifty percent stock dividend issued in 1998. At December 31, 1998, there were approximately 2,635 shareholders of record.

	DIVIDENDS	PRICES	
PERIOD	PER SHARE	LOW	HIGH
1998			
1st Quarter	$ .175	$ 36.00	$ 38.00
2nd Quarter	.175	36.25	41.88
3rd Quarter	.175	32.25	32.25
4th Quarter	.190	32.00	32.31
1997			
1st Quarter	$ .133	$ 23.66	$ 26.00
2nd Quarter	.147	23.83	26.67
3rd Quarter	.147	25.67	28.67
4th Quarter	.147	27.50	37.00

Management's Discussion and Analysis of Financial Condition and Results of Operations
(In Thousands, Except Share Data)

Overview

The Peoples Holding Company (the Company) is a one-bank holding company incorporated under the laws of the state of Mississippi. The Peoples Bank & Trust Company (the Bank) was incorporated in February 1904 and became a subsidiary of the Company in 1983. The Bank operates 41 branches located in North and North Central Mississippi and is the sixth largest bank located in the state.

The Company's banking subsidiary provides a wide range of banking and financial services to its customers. Those include lending services for commercial, consumer, and real estate loans; depository services for checking, savings, money market, IRA, and certificate of deposit accounts; and fiduciary services. The Bank maintains credit card services and is the issuer of the Mississippi State University, the Delta State University, and the State of Mississippi Department of Wildlife, Fisheries & Parks affinity cards. In addition, the Bank has a number of automated teller machines located throughout its market area that provide 24-hour banking services along with 24-hour access to customer account information through a voice response system. The Company also offers annuities and mutual funds.

The purpose of this discussion is to focus on important factors affecting the Company's financial condition and results of operations. Reference should be made to the consolidated financial statements (including the notes thereto) and the selected financial data in this report for an understanding of the following discussion and analysis. All per-share data is restated to reflect all stock dividends declared through December 31, 1997.

The Company ended 1998 with assets totaling $1,063,365, up from the prior year total of $971,055. This represented a 9.5% growth compared to 8.7% for 1997. Earnings were up 6.8% from the previous year with net income surpassing $11,300.

On December 14, 1998, the Company entered into an agreement to merge with Inter-City Federal Bank for Savings (Inter-City) located in Louisville, Mississippi. On December 31, 1998, total assets, loans, and deposits for Inter-City totaled $44,368, $34,890, and $38,530, respectively. The transaction is expected to be accounted for as a pooling of interests. The exchange ratio will be 2.78 shares of the Company for each share of Inter-City (approximately 347,405 shares). The transaction is expected to be consummated in March 1999.

Effective October 1997, the Company purchased approximately $11,036 of assets and assumed approximately $15,232 of deposit liabilities from one branch office of Magnolia Federal Bank for Savings located in Grenada, Mississippi. Goodwill of approximately $2,123 was recorded regarding the acquisition.

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

Financial Condition Review

The Company emphasizes the importance of employing a high percentage of its assets in an earning capacity. Utilization of the Company's earning assets is a major factor in generating profitability.

The Company employs the largest portion of its earning assets in loans. Loans, net of unearned income, comprised 65.3% and 64.7% of the total assets at December 31, 1998 and 1997, respectively. Overall loan growth in 1998 was 10.6%, with the most significant percentage growth in real estate-mortgage loans, commercial, and consumer. The increase in real estate loans was mainly due to the growth in the residential market and the favorable rates being offered on mortgages. Total loans increased 11.6% during 1997, with the most significant growth in real estate-construction and real estate-mortgage loans.

The table below sets forth loans outstanding, according to loan type, at December 31:

	1998	1997	1996	1995	1994
Commercial, financial, and agricultural	$ 137,272	$ 120,412	$ 111,687	$ 107,558	$ 98,767
Real estate - construction .	25,562	24,365	20,651	16,851	18,189
Real estate - mortgage	382,179	344,212	301,078	259,918	253,154
Consumer	158,096	148,472	137,704	149,218	143,948
Unearned income	(8,826)	(9,515)	(8,367)	(11,231)	(12,010)
Total loans, net of unearned income	$ 694,283	$ 627,946	$ 562,753	$ 522,314	$ 502,048

The securities portfolio is used to provide term investments, to provide a source of meeting liquidity needs, and to supply securities to be used in collateralizing public funds. The types of securities purchased and the terms of those securities depend on management's assessment of future economic conditions.

The securities portfolio increased $42,436 or 17.1%, at December 31, 1998, compared to December 31, 1997. The most significant increase was in mortgage backed securities, which increased 40.9%. Investments in obligations of states and political subdivisions accounted for the second largest change, growing $17,000 or 28.4%. U. S. Treasury securities decreased $16,146 or 22.8%. The change in the composition of the portfolio was largely attributable to the widening of the spreads between U. S. Treasury securities and other investment alternatives.

The securities portfolio was up $2,521 or 1.0% at December 31, 1997, compared to December 31, 1996. The most significant increase was in obligations of other U.S. Government agencies and corporations, which increased 59.4%. All other investment categories increased slightly with the exception of preferred stock, which decreased 68.20%. The securities portfolio represented 27.3% and 25.6% of assets at December 31, 1998 and 1997, respectively.

Management continues to evaluate the Company's tax position in order to maximize earnings from securities. The Company was not in an alternative minimum tax position during 1998 or 1997. Note E of the Notes to the Consolidated Financial Statements provides details of the securities portfolio.

Federal funds sold and interest-bearing balances with banks provide a significant source of liquidity. These funds consist of day-to-day loans to correspondent banks. Federal funds sold and interest-bearing balances with banks totaled $433 and $20,973 at December 31, 1998 and 1997, respectively. The changes in these balances between periods are typical of fluctuations in the availability of funds caused by changes in deposits, loans, and securities.

Nonearning assets include cash and due from banks, premises and equipment, and other assets. Cash and due from banks represented 3.0% and 3.4% of total assets at December 31, 1998 and 1997, respectively. These funds are available for meeting day-to-day cash requirements inclusive of reserves required to be held by the Federal Reserve Bank. The Company has been working toward minimizing the amount of cash on hand by both implementing changes allowed by The Federal Reserve Bank regarding reserve requirements and the monitoring of cash needs for the branch network. The balance of cash and due from banks may fluctuate significantly based on bank activity.

Net premises and equipment were $26,356 and $23,493 at December 31, 1998 and 1997, respectively. In a continued effort to upgrade and improve the branch facilities and technology, the Company invested $5,274 in building expansion and equipment during 1998. Additionally in 1998, two new branches were constructed in Tupelo in strategic locations that would provide better service to an expanding marketplace. One of the facilities replaced a branch located in a grocery store. Construction is in process on a new branch facility located in Hernando.

In 1997, the Company consolidated two aging branches in Grenada to a new facility, consolidated the Water Valley branches into one branch, and constructed a new branch in Aberdeen. The consolidation and construction of new branches were completed to improve services to the respective communities.

Other assets were $28,902 and $26,184 at December 31, 1998 and 1997, respectively. The major accounts in this category are interest earned not collected, prepaid expenses, intangible assets, deferred taxes, cash surrender value of insurance, and other real estate owned. Interest earned not collected at December 31, 1998, totaled $10,061, up from $8,990 at the end of 1997. Prepaid expenses were $2,163 and $1,833 at December 31, 1998 and 1997, respectively.

Intangible assets, resulting from bank acquisitions totaled $5,357 and $5,886 at December 31, 1998 and 1997, respectively. These intangibles are being amortized over a period of 13 to 15 years.

Capitalized mortgage servicing rights totaled $877 and $462 at December 31, 1998 and 1997, respectively. The increase corresponds to the increase in residential mortgage loans. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income.

Cash surrender value of insurance equaled $5,411 and $4,593 at December 31, 1998 and 1997, respectively. The Company maintains life insurance policies on key members of management and records the resulting cash surrender value.

The Company relies on deposits as its major source of funds. Noninterest-bearing deposits were $149,433 and $120,829 at December 31, 1998 and 1997, respectively. This represented 14.1% and 12.4% of total assets at December 31, 1998 and 1997, respectively. The increase of 23.7% for 1998 was the result of the Company implementing a more aggressive marketing and personal sales effort. During 1997, the low growth of 1.9% was due to the depositors utilizing more interest-bearing products.

Interest-bearing deposits were $772,253 and $714,085 at December 31, 1998 and 1997, respectively, or an 8.2% increase over 1997. The largest growth contributing to this increase came from interest-bearing transaction accounts and money market accounts. Those accounts accounted for approximately $38,000 of the growth. Interest-bearing public funds increased from $23,911 to $43,368 or 81.4%.

Interest-bearing deposits at December 31, 1997, increased 9.2% over 1996. The largest growth came from interest-bearing demand deposits and certificates of deposit exceeding $100,000. In addition, the Magnolia Federal Bank for Savings branch office acquisition accounted for an increase of approximately $15,232 in 1997. The remaining growth in interest-bearing deposits was due to internal growth.

The Company maintains a note account with the Federal Reserve Bank for which tax deposits are accepted. The account is secured through pledging of securities. On December 31, 1998, the balance in the treasury tax and loan note account was $2,455, down from $6,101 at the end of 1997. This account fluctuates based on the amount of securities pledged to secure the account and the frequency with which the Federal Reserve Bank draws on those funds.

During 1998, the Company received advances from the Federal Home Loan Bank (FHLB) totaling $1,000. The balance due to the FHLB at December 31, 1998 and 1997 was $17,067 and $18,452, respectively. These advances are the result of asset/liability management decisions matching certain earning assets (first mortgages and consumer loans) against these advances at positive rate spreads. Note G of the Notes To Consolidated Financial Statements provides details of the borrowings from the FHLB.

Other liabilities totaling $14,598 and $13,435 at December 31, 1998 and 1997, respectively, include accrued interest payable, accrued expenses, current taxes payable, and dividends payable. Accrued interest payable totaled $4,810 and $4,902 at December 31, 1998 and 1997, respectively. Accrued retirement plan costs totaled $1,431 and $1,075 at December 31, 1998 and 1997, respectively.

Risk Management

The management of risk is an on-going process. Risks that are associated with the Company include, but are not limited to, credit, interest rate, and liquidity risks.

Credit Risk

Inherent in any lending activity is credit risk, that is, the risk of loss should a borrower or trading counterparty default. The Company's 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. The Company tries to maintain diversification within its loan portfolio in order to minimize the effect of economic conditions within a particular industry.

The allowance for loan losses is available to absorb inherent credit losses 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 losses on loans assessed as impaired under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." The balance of these loans determined as impaired and their related allowance is included in management's estimation and analysis of the allowance for loan losses. If the allowance is deemed inadequate, management sets aside additional reserves by increasing the charges against income.

The allowance for loan losses was $9,620 and $9,104 at December 31, 1998 and 1997, respectively. This represents a ratio of allowance to year-end loans of 1.4% and 1.5%, respectively. Management deems this allowance adequate for inherent loan losses.

The Company's net charge-offs for 1998 and 1997 were $2,047 and $2,485, respectively. This represented a net charge-offs to average loans ratio of .3% and .4% for the years ending December 31, 1998 and 1997, respectively. Management continues to monitor loans and utilize diligent collection efforts.

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

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

Allowance for Loan Losses

	1998	1997	1996	1995	1994
Balance at Beginning of Year	$ 9,104	$ 9,309	$ 8,815	$ 8,183	$ 6,388
Provision for Loan Losses	2,563	2,280	2,813	2,827	2,001
Charge-Offs					
Commercial, Financial, and Agricultural	433	248	273	1,286	174
Real Estate - Construction .	34	228			
Real Estate - Mortgage	267	667	247	93	237
Consumer	1,780	1,900	2,073	1,059	684
Total Charge-Offs	2,514	3,043	2,593	2,438	1,095
Recoveries					
Commercial, Financial, and Agricultural	142	73	54	101	562
Real Estate - Construction .	11	68			
Real Estate - Mortgage	88	197	49	6	149
Consumer	226	220	171	136	178
Total Recoveries	467	558	274	243	889
Net Charge-Offs	2,047	2,485	2,319	2,195	206
Balance at End of Year	$ 9,620	$ 9,104	$ 9,309	$ 8,815	$ 8,183
Loan Loss Analysis					
Loans - Average	$ 646,709	$ 589,557	$ 533,548	$ 516,784	$ 466,137
Loans - Year End	694,283	627,946	562,753	522,314	502,048
Net Charge-offs	2,047	2,485	2,319	2,195	206
Allowance for Loan Losses	9,620	9,104	9,309	8,815	8,183
Ratios					
Net Charge-offs to					
Loans - Average	.32%	.42%	.43%	.42%	.04%
Allowance for Loan Losses ..	21.28%	27.30%	24.91%	24.89%	2.52%
Allowance for Loan Losses to					
Loans - Year End	1.39%	1.45%	1.65%	1.69%	1.63%
Nonperforming Loans	278.60%	200.71%	211.47%	257.00%	394.55%
Nonperforming Loans to					
Loans - Year End	.50%	.72%	.78%	.66%	.41%
Loans - Average	.53%	.77%	.83%	.66%	.44%

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

	1998	1997	1996	1995	1994
Nonperforming Loans					
Nonaccruing	$ 204	$ 1,070	$ 1,655	$ 803	$ 877
Accruing Loans Past Due 90 Days Or More	3,249	3,466	2,747	2,627	1,197
Total Nonperforming Loans	3,453	4,536	4,402	3,430	2,074
Restructured Loans Balance Outstanding	178	203	224	243	260
Total Nonperforming Loans Including Restructured	$ 3,631	$ 4,739	$ 4,626	$ 3,673	$ 2,334

The following table presents the interest income on restructured loans, if these loans had been current in accordance with their original terms, and the amount of interest income on these loans that was included in income for the periods indicated:

	1998	1997	1996	1995	1994
Gross Amount Of Interest That Would Have Been Recorded At The Original Rate	$	$	$	$	$ 4
Interest That Was Recognized In Income	$ 15	$ 15	$ 16	$ 16	$ 21
Favorable Impact On Gross Income	$ 15	$ 15	$ 16	$ 16	$ 17

Nonperforming loans totaled $3,453 and $4,536 at December 31, 1998 and 1997, respectively. These loans represented .5% and .8% of average loans for 1998 and 1997, respectively. The allowance for loan losses to nonperforming loans was 278.6% and 200.7% at December 31, 1998 and 1997, respectively. Loans that are considered to be nonperforming are closely monitored by management and the Loss Management Committee.

Real estate acquired through the satisfaction of loan indebtedness is recorded at the lower of cost or fair market value, less estimated selling costs. Any deficiency between the loan balance and the purchase price of the property is charged to the allowance for loan losses. Subsequent property sales may result in gains or losses to the Company.

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 a reduction in interest rates, or a deferral of interest or principal payments.

Loans that have been restructured due to cash flow requirements totaled $178 and $203 at December 31, 1998 and 1997, respectively. The Company's loan review staff monitors the performance of these loans.

Interest Rate Risk

The Company has an Asset/Liability Committee (ALCO) which is duly authorized by the Board of Directors to monitor the position of the Company and to make decisions relating to that process. The ALCO's goal is to maximize net interest income while providing the Company with an acceptable level of market risk due to changes in interest rates. Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. To that end, management actively monitors and manages its interest rate risk exposure.

The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using several tools. One measure of the Company's exposure to differential changes in interest rates between assets and liabilities is shown in the Company's Maturity and Rate Sensitivity Analysis (GAP Analysis). Another test measures the impact on net interest income and on net portfolio value (NPV) of an immediate change in interest rates in 100 basis point increments. Net portfolio value is defined as the net present value of assets, liabilities, and off-balance sheet contracts. Following are the estimated impacts of immediate changes in interest rates at the specified levels at December 31, 1998 and 1997:

	Percentage Change In:			
Change In Interest Rates (In Basis Points)	Net Interest Income (1)		Net Portfolio Value (2)	
	1998	1997	1998	1997
+400	(15.5%)	(5.4%)	(8.5%)	(7.0%)
+300	(11.6%)	(2.2%)	(5.8%)	(4.7%)
+200	(7.7%)	0.9%	(3.5%)	(2.6%)
+100	(3.7%)	0.3%	(1.5%)	(1.3%)
-100	6.5%	(1.0%)	0.7%	0.8%
-200	1.3%	(2.3%)	(3.1%)	(2.1%)
-300	(0.7%)	(4.6%)	(5.6%)	(5.9%)
-400	(4.0%)	(5.3%)	(10.1%)	(13.0%)

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

(2) The percentage change in this column represents net portfolio value of the Company in a stable interest rate environment versus the net portfolio value in the various rate scenarios.

As of December 31, 1998, under the assumptions used in the table above, immediate rate fluctuations within plus 200 basis points and minus 400 basis points would have minimal effects on pre-tax earnings. An adverse material impact on pre-tax earnings would not occur unless rates experienced an immediate increase of 200 basis points or more, or an immediate decrease of 400 basis points or more.

As of December 31, 1997, under the assumptions used in the table above, immediate rate fluctuations within plus 400 basis points and minus 400 basis points would have minimal effects on pre-tax earnings. An adverse material impact on pre-tax earnings would not occur unless rates experienced an immediate increase of more than 400 basis points or an immediate decrease of more than 400 basis points.

The Company's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company's net interest income and capital, while structuring the Company's asset-liability structure to obtain the maximum yield-cost spread on that structure. The Company relies primarily on its asset-liability structure to control interest rate risk. The results of the interest rate shock are within the limits set by the Board of Directors.

The Company continually evaluates interest rate risk management opportunities, including the possible use of derivative financial instruments. Management believes that hedging instruments currently available are not cost-effective, and therefore, has focused its efforts on increasing the Company's yield-cost spread through retail growth opportunities.

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

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

Liquidity Risk

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

Core deposits are a major source of funds used to meet cash flow needs. Maintaining the ability to acquire these funds as needed in a variety of money markets is the key to assuring liquidity. Approximately 67% of the Company's deposits are composed of accounts with balances less than $100,000. When evaluating the movement of these funds, even during large interest rate changes, it is apparent that the Company continues to attract deposits that can be used to meet cash flow needs. Other sources available for meeting the Company's liquidity needs include available-for-sale securities. The available-for-sale portfolio is composed of securities with a readily available market that can be used to convert to cash if the need arises. In addition, the Company maintains a federal funds position and treasury tax and loan note account that provide day-to-day funds to meet liquidity needs and may also obtain advances from the Federal Home Loan Bank in order to meet liquidity needs.

Repayments and maturities of loans provide a substantial source of liquidity. The Company has approximately 63.5% of loans maturing within the next twelve months.

Capital Resources

Total shareholders' equity of the Company was $105,059 and $98,151 at December 31, 1998 and 1997, respectively. Shareholders' equity grew 7.0% during 1998 and 8.4% during 1997. The growth in capital for both years was attributable to earnings less dividends declared. In 1998, the Company raised dividends in the second quarter. In addition, the effect of SFAS No. 115 increased capital in 1998 and 1997 by $830 and $566, respectively. Shareholders' equity as a percentage of assets was 9.9% and 10.1% at December 31, 1998 and 1997, respectively.

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

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

The Company met the guidelines for a well capitalized bank for both 1998 and 1997. At December 31, 1998, the total Tier 1 and total risk-based capital was $98.4 and $107.3, respectively. Risk-weighted assets less excess allowance for loan losses were $712,302 and $631,400 at December 31, 1998 and 1997, respectively. Tier 1 and total risk-based capital at December 31, 1997, were $91.3 and $99.2, respectively. See Note R of the Consolidated Financial Statements for capital ratios.

During 1998, the Company raised cash dividends in the first quarter to $.17 per share on a quarterly basis and again in the fourth quarter to $.19 per share on a quarterly basis. This is the Company's twelfth consecutive year to raise cash dividends. The Company returned approximately 37% of its earnings to its shareholders in the form of dividends.

In December 1997, the Company declared a fifty percent stock dividend to shareholders of record on January 1, 1998. Applicable per-share and book-value information have been restated for the stock dividend. Cash dividends were raised in the second quarter to $.1467 per share on a quarterly basis up from $.133 per share. Book value per share was $17.98 and $16.75 at December 31, 1998 and 1997, respectively. Management places significant emphasis on internal growth of capital. The increase in capital for both years, excluding the effects of SFAS No. 115, was internally generated due to a retention of earnings of 63.2% and 68.0% during 1998 and 1997, respectively.

Results of Operations

Net income for the Company was $11,368, $10,640, and $9,516 for 1998, 1997, and 1996, respectively. In 1998, net income increased $728, or 6.8%, over 1997. In 1997, net income increased $1,124, or 11.8%, over 1996. Earnings per share were $1.94, $1.82, and $1.62, for the years ending December 31, 1998, 1997, and 1996, respectively.

Return on average assets for 1998, 1997, and 1996 was 1.11%, 1.14%, and 1.10%, respectively. The increase in 1998 earnings compared to 1997 was the result of an increase of $1,873, or 4.6%, in net interest income, an increase in the provision for loan losses of $283, or 12.4%, an increase in noninterest income of $2,278, or 19.0%, coupled with an increase in noninterest expenses of $3,117, or 8.9%. While much of the year's earnings were the result of customary banking services, the Company increased its noninterest income due to mortgage activity and the sale of alternative products.

During 1998, the Company began the most comprehensive restructuring in its history. Alex Sheshunoff Management Services, Incorporated was retained to help re-engineer the Company's delivery system. Changes were made in data processing, the support and retail functions, and the number of employees. Displacements of employees as a result of the engagement were completed on December 31, 1998.

The increase in net income for 1997 resulted from an increase in net interest income of $2,216, or 5.8%, a decrease in the provision for loan losses of $533, or 19.0%, and an increase in noninterest income of $989, or 9.0%, coupled with an increase in noninterest expenses of $2,179, or 6.6%.

Net interest income is the largest component of net income for the Company. It is an effective measurement of how well management has balanced the interest-sensitive assets and liabilities and is the difference between the interest earned on earning as sets and the cost paid on interest-bearing liabilities. Net interest income was $42,270, $40,397, and $38,181, for the years ending December 31, 1998, 1997, and 1996, respectively. This increase over the three-year period was the result of management's ability to maximize earnings through changes in interest rates and increased volume in earnings assets. Net interest income, on a tax equivalent basis, for the year ending December 31, 1998, increased approximately $3,825 due to increases in the volume of earning assets and costing liabilities and decreased approximately $1,952 due to changes in interest rates. The Company experienced the most significant volume increase in loans, savings, and money market accounts. Rates were up moderately during 1998 for all categories of deposit accounts.

Loan interest income was $60,054, $55,650, and $50,580 for the years ended December 31, 1998, 1997, and 1996, respectively. The increase in 1998 was due to an increase in average volume over 1997 of approximately $57,152, while the decrease in tax-equivalent yield from 9.4% in 1998 compared to 9.5% in 1997, resulted in a decrease of approximately $4,404 in interest income.

The increase for loan interest income in 1997 over 1996 was due to growth in the average loan balance of approximately $56,009 and a decrease in the tax equivalent yield of approximately 3 basis points, resulting in an increase in interest income of approximately $5,070.

Interest income from securities was $17,066, $16,008, and $14,971 for the years ending December 31, 1998, 1997, and 1996, respectively. The increase in interest income in 1998 compared to 1997 was due to an increase in the average balance of approximately $25,430, while the tax equivalent yield on securities decreased in 1998 to 6.8% from 6.9% in 1997. The effect of the increase in average volume resulted in an increase in tax-equivalent interest income of approximately $1,559 and the change in yield decreased tax-equivalent interest income by approximately $501.

Interest income from securities for 1997 increased 6.9% due to the average balance increasing $17,714 from 1996. The tax equivalent yield on securities for 1997 was 3 basis points lower than 1996.

The tax equivalent yields on average earning assets were 8.5%, 8.6%, and 8.6%, for 1998, 1997, and 1996, respectively.

The major source of funds for the Company is deposits. Deposits represented 86.7% and 86.0% of the total assets at December 31, 1998 and 1997, respectively. Interest-bearing accounts funded 72.6% and 73.5% of the assets for those two years. The cost of funds is reflected in interest expense.

Interest expense for deposits and borrowings was $35,643, $31,804, and $28,244, for the years ended December 31, 1998, 1997, and 1996, respectively. The increase in interest expense in 1998 compared to 1997 was due to an increase in the average balance of interest-bearing deposits of approximately $74,192, which increased interest expense by approximately $3,481. The change in the average interest rates by 4 basis points resulted in an increase in interest expense of approximately $358.

The increase in interest expenses for 1997 compared to 1996 was due to an increase in the average balance of interest-bearing liabilities of approximately $77,274 and an increase in the cost of interest-bearing liabilities of 4 basis points. The change in interest expense from 1997 compared to 1996 of $3,559 was due to an increase of approximately $2,567 in volume and approximately $992 increase in interest expense due to interest rate changes.

The net interest margin reflects the portion of the yield on earning assets that remains after the accrual of all interest expense. Net interest margin on a tax equivalent basis was 4.7%, 5.0%, and 5.1% for the years ending December 31, 1998, 1997, and 1996, respectively. The decrease in net interest margin since 1996 was due to management's decision to reprice products in response to competition and the interest rate environment, while increasing net interest income through increased volume.

The provision for loan losses was $2,563, $2,280, and $2,813 for 1998, 1997, and 1996, respectively. The increase in provision in 1998 is in response to the growth of loans. The provision for loan losses for 1997 was down slightly from 1996 due to the lowering of the balance of non-performing loans.

Noninterest income totaled $14,298, $12,020, and $11,030, for the years ended December 31, 1998, 1997, and 1996, respectively. This represented 33.8%, 29.8%, and 29.0% of net interest income for the applicable year. Included in noninterest income are service charges on deposit accounts, fees and commissions, trust revenue, securities gains and losses, and other income.

Service charges on deposit accounts increased $419, or 6.2%, in 1998 compared to 1997. The increase was due to the growth in transaction accounts. Service charges were up $203, or 3.1%, in 1997 compared to 1996. This increase was mainly due to the acquisition of approximately $15,232 in deposit accounts from Magnolia Federal Bank for Savings.

Fees and commissions were $1,891, $1,447 and $1,397, for 1998, 1997, and 1996, respectively. Fees were up 30.7% for 1998, largely attributable to an increase of $378 in income from annuity sales and $192 in mortgage loan fees.

Securities gains in 1998 totaled $61 compared to securities losses of $41 for 1997 and gains in 1996 of $110. The gains and losses in the portfolio are a result of strategies implemented in the securities portfolio to maintain liquidity and enhance future income.

Other income was $4,314, $3,127, and $2,315 for 1998, 1997, and 1996, respectively. Credit card fees were up approximately $351, and profits on mortgage sales were up $474. The Company began offering enhancements to loan products that resulted in an increase in other income of $146. The increase in 1997 compared to 1996 was due to an increase in document preparation fees of approximately $454, an increase of approximately $148 in merchant discount revenue, and an increase in fees of approximately $70 related to credit card services.

Noninterest expenses include salaries and employee benefits, net occupancy, equipment, income taxes, and other noninterest expenses. The totals for these expenses for the years ending December 31, 1998, 1997, and 1996 were $38,126, $35,009, and $32,830, respectively. Noninterest expenses for 1998 were up 8.9% compared to 1997. Noninterest expenses increased 7.1% and 2.2% for 1997 and 1996, respectively.

Salaries and employee benefits, representing a major portion of the Company's operating expenses, increased 6.3%, 7.2%, and 0.9%, during 1998, 1997, and 1996, respectively. Management monitors these costs through the implementation of a performance evaluation system. Jobs are graded according to levels of difficulty using a point system which provides for salary adjustments through specified ranges. Employee performance, in relation to goal achievement, is a major factor contributing to the employee's salary increase. Salaries were up 3.0% over 1997. Other increases came from health insurance and ESOP. During 1998, the Company employed Alex Sheshunoff Management Services, Incorporated to assist in re-engineering the delivery system. At the end of 1998, the Company displaced a number of employees which resulted in additional costs due to severance pay.

The increase in 1997 versus 1996 was due to additional staffing related to acquisitions and internal growth of the Company. Also, employee benefit plan costs increased approximately $617 related to implementation of a money purchase pension plan and a 401(k) plan.

During 1997, the Company adopted a Stakeholder performance compensation program wherein rewards reconcile directly with performance related to profit, growth, quality, and productivity. During 1996 and 1995, another incentive program was utilized. The cash incentive for 1998, 1997, and 1996 was approximately $251, $775, and $552, respectively, which also increased salaries and benefits in 1998, 1997, and 1996.

Net occupancy expense includes charges for repairs, janitorial, depreciation, rental, and other expenses related to occupancy. Expenses for 1998, 1997, and 1996 were $2,683, $2,599, and $2,269, respectively. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company recognized an impairment loss of approximately $142 for 1998 in moving a branch location at Barnes Crossing and $226 in 1997 related to the consolidation of branch offices in Grenada and Water Valley and construction of a new branch in Aberdeen. The increase for 1998 was due to depreciation, janitorial, utility, and insurance expenses. Each of these costs increased due to the construction of new facilities during 1998 or in 1997. The new branches were constructed to improve service in those locations.

Equipment expenses include computer and equipment repairs and depreciation. These expenses totaled $1,908, $1,780, and $1,595, for 1998, 1997, and 1996, respectively. The increase in 1998 was attributable to increases in depreciation expense and repairs and maintenance. The increase in 1997 over 1996 was due to depreciation and expenses incurred in completing the Technology Center and new branches previously mentioned.

Other expenses for 1998, 1997, and 1996 were $12,778, $11,097, and $10,748, respectively. The increase in 1998 compared to 1997 was due to education, special community functions sponsored by the Company, correspondent bank fees, other fees (Alex Sheshunoff Management Services, Incorporated), and computer processing charges. The increase in 1997 compared to 1996 was due to normal increases in cost due to inflation and approximately $296 increase in other fees.

As the year 2000 approaches, an issue impacting all companies has emerged regarding how existing application software programs and operating systems can accommodate this date value. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two digit value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Management is in the process of working with its software vendors to assure that the Company is prepared for the year 2000. While the Company believes its planning efforts are adequate to address its year 2000 concerns, there can be no guarantee that the systems of other companies on which the Company's systems and operations rely will be converted on a timely basis and will not have a material effect on the Company. The Company has not incurred significant operating expenses or been required to invest heavily in computer system improvements to be year 2000 compliant. The Company successfully completed testing for its mission critical applications processed by its third party service provider during the fourth quarter of 1998, following the conversion to the expanded code for year 2000. Future date testing of year 2000 critical dates will be completed for these applications during the first quarter of 1999. Six non-compliant systems identified had not been upgraded to year 2000 compliant applications at year end but are projected to be compliant by June 30, 1999. Eighteen systems were in process of being tested to validate their year 2000 compatibility, three of which were completed during January and February, and testing will be substantially complete by March 31, 1999. A committee will be commissioned the first quarter of 1999 to develop contingency plans for year 2000. These contingency plans will not only address potential business interruptions related to the year 2000, but also liquidity and cash availability contingencies as the millennium approaches.

Income tax expense for 1998, 1997, and 1996 was $4,511, $4,488, and $4,052, respectively. The increase in 1998 was due to an increase in earnings. The Company increased its holding in tax-exempt securities which lowered its effective tax rate. The increase in income taxes for 1997 and 1996 was due to increased profits and the Company paying state of Mississippi taxes after a net operating loss carryforward was depleted in the first quarter of 1995. The effective tax rate was approximately 5% for state income taxes. Effective tax rates were 28.4%, 29.7%, and 29.9%, for 1998, 1997, and 1996, respectively. Note L of the Notes To Consolidated Financial Statements provides further details of the provision for income taxes.

Impact of Inflation and Changing Prices

The majority of assets and liabilities of a financial institution are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets and inventories. Management believes the most significant impact on financial results stems from the Company's ability to react to changes in interest rates. Therefore, management is constantly monitoring the Company's rate sensitivity.

SEC Form 10-K

A copy of the 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: Stuart Johnson, Executive Vice President, The Peoples Bank & Trust Company, P. O. Box 709, Tupelo, MS 38802-0709.

Three-Year Statistical Summary
(In Thousands)

	1998		
	Income Or Expense	Average Balance Sheet Amounts	Yields/Rates
Earning assets			
Loans, net of unearned income			
Commercial	$ 28,449	$ 314,527	9.10%TE
Consumer	17,683	186,796	9.47%
Other loans	13,922	145,386	9.72%TE
Total Loans, Net	60,054	646,709	9.35%TE
Other	793	14,626	5.42%
Taxable securities			
U.S. Government securities	3,764	62,367	6.24%TE
U.S. Government agencies	3,011	48,925	6.32%TE
Mortgage-backed securities	6,413	101,838	6.30%
Other securities	228	2,994	8.21%TE
Total Taxable Securities	13,416	216,124	6.31%TE
Tax-exempt securities			
Obligations of states and political subdivisions	3,650	70,396	8.14%TE
Total Securities	17,066	286,520	6.76%TE
Total Earning Assets	77,913	947,855	8.50%TE
Cash and due from banks		34,215	
Other assets, less allowance for loan losses		44,041	
Total Assets		$1,026,111	
Interest-bearing liabilities			
Interest-bearing demand deposit accounts	1,855	$ 55,963	3.31%
Savings and money market accounts	7,192	234,606	3.07%
Time deposits	25,132	468,277	5.37%
Total Interest-Bearing Deposits	34,179	758,846	4.50%
Total Other Interest-Bearing Liabilities	1,464	24,340	6.01%
Total Interest-Bearing Liabilities	35,643	783,186	4.55%
Noninterest-bearing sources			
Noninterest-bearing deposits		127,374	
Other liabilities		12,953	
Shareholders' equity		102,598	
Total Liabilities and Shareholders' Equity		$1,026,111	
Net interest income/net interest margin	$ 42,270		4.74%TE

TE - Ratios have been calculated on a tax equivalent basis.

	1997		
	Income Or Expense	Average Balance Sheet Amounts	Yields/Rates
Earning assets			
Loans, net of unearned income			
Commercial	$ 25,943	$ 282,262	9.25%TE
Consumer	17,658	183,863	9.60%
Other loans	12,049	123,432	9.87%TE
Total Loans, Net	55,650	589,557	9.49%TE
Other	543	10,102	5.37%
Taxable securities			
U.S. Government securities	4,522	76,993	6.07%TE
U.S. Government agencies	3,074	48,026	6.52%TE
Mortgage-backed securities	5,250	79,690	6.59%
Other securities	211	2,822	8.06%TE
Total Taxable Securities	13,057	207,531	6.40%TE
Tax-exempt securities			
Obligations of states and political subdivisions	2,951	53,559	8.61%TE
Total Securities	16,008	261,090	6.85%TE
Total Earning Assets	72,201	860,749	8.64%TE
Cash and due from banks		34,137	
Other assets, less allowance for loan losses		37,271	
Total Assets		$ 932,157	
Interest-bearing liabilities			
Interest-bearing demand deposit accounts	1,855	$ 56,379	3.29%
Savings and money market accounts	5,752	196,011	2.93%
Time deposits	22,933	432,264	5.31%
Total Interest-Bearing Deposits	30,540	684,654	4.46%
Total Other Interest-Bearing Liabilities	1,264	21,258	5.94%
Total Interest-Bearing Liabilities	31,804	705,912	4.51%
Noninterest-bearing sources			
Noninterest-bearing deposits		119,356	
Other liabilities		12,293	
Shareholders' equity		94,596	
Total Liabilities and Shareholders' Equity		$ 932,157	
Net interest income/net interest margin	$ 40,397		4.95%TE

TE - Ratios have been calculated on a tax equivalent basis.

	1996		
	Income Or Expense	Average Balance Sheet Amounts	Yields/Rates
Earning assets			
Loans, net of unearned income			
Commercial	$ 23,797	$ 259,223	9.23%TE
Consumer	18,245	187,521	9.73%
Other loans	8,538	86,804	9.91%TE
Total Loans, Net	50,580	533,548	9.52%TE
Other	874	16,492	5.30%
Taxable securities			
U.S. Government securities	4,844	83,010	6.03%TE
U.S. Government agencies	3,013	45,725	6.68%TE
Mortgage-backed securities	4,123	62,214	6.63%
Other securities	226	3,178	7.87%TE
Total Taxable Securities	12,206	194,127	6.41%TE
Tax-exempt securities			
Obligations of states and political subdivisions	2,765	49,250	8.76%TE
Total Securities	14,971	243,377	6.88%TE
Total Earning Assets	66,425	793,417	8.62%TE
Cash and due from banks		40,845	
Other assets, less allowance for loan losses		34,459	
Total Assets		$ 868,721	
Interest-bearing liabilities			
Interest-bearing demand deposit accounts	2,865	$ 88,601	3.23%
Savings and money market accounts	4,233	159,557	2.65%
Time deposits	20,649	395,827	5.22%
Total Interest-Bearing Deposits	27,747	643,985	4.31%
Total Other Interest-Bearing Liabilities	497	10,009	4.96%
Total Interest-Bearing Liabilities	28,244	653,994	4.32%
Noninterest-bearing sources			
Noninterest-bearing deposits		116,634	
Other liabilities		10,598	
Shareholders' equity		87,495	
Total Liabilities and Shareholders' Equity		$ 868,721	
Net interest income/net interest margin	$ 38,181		5.06%TE

TE - Ratios have been calculated on a tax equivalent basis.

EXHIBIT 23

THE PEOPLES HOLDING COMPANY

CONSENT OF INDEPENDENT AUDITORS

We consent to the incoporation by reference in this Annual Report (Form 10-K) of The Peoples Holding Company of our report dated January 22, 1999, included in the 1998 Annual Report to Shareholders of The Peoples Holding Company.

We also consent to the incorporation by reference in the Registration Statement (Form S-3 No. 33-20108) of The Peoples Holding Company and related Prospectus and in the Registration Statement (Form S-4, No. 333-72507) of The Peoples Holding Company and related Prospectus, of our report dated January 22, 1999, with respect to the consolidated financial statements of The Peoples Holding Company incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ Ernst & Young LLP

Memphis, Tennessee
March 26, 1999

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YEAR
DEC-31-1998
DEC-31-1998
31,944
433
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9,620
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305