

UNION PLANTERS CORP
Form 10-Q
May 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

S

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

For the quarterly period ended March 31, 2003

OR

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

For the transition period _____ to _____

Commission File No. 1-10160

UNION PLANTERS CORPORATION

(Exact name of registrant as specified in its charter)

Tennessee
(State of incorporation)

62-0859007
(IRS Employer Identification No.)

Union Planters Corporation

6200 Poplar Avenue

Memphis, Tennessee 38119

(Address of principal executive offices)

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Registrant's telephone number, including area code: (901) 580-6000

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

Yes S No "

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes S No "

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

<u>Class</u>	<u>Outstanding at April 30, 2003</u>
Common stock \$5 par value	198,525,622

UNION PLANTERS CORPORATION AND SUBSIDIARIES

Form 10-Q For the Three Months Ended March 31, 2003

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Part I. FINANCIAL INFORMATION

Item 1 - Financial Statements (unaudited)

UNION PLANTERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Unaudited)

	<u>March 31,</u>		December 31,
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 842,860	\$ 671,419	\$ 1,008,078
Interest-bearing deposits at financial institutions	105,452	78,052	116,208
Federal funds sold and securities purchased under agreements to resell	43,885	24,937	122,069
Trading account assets	294,669	253,334	266,322
Loans held for resale	2,081,114	1,191,794	2,430,298
Available for sale securities	6,083,615	4,828,814	5,467,283
Loans:			
Commercial, financial and agricultural	5,176,219	5,082,746	5,216,820
Foreign	188,366	340,857	217,570
Accounts receivable - factoring	732,154	675,899	666,731
Real estate - construction	2,313,278	2,245,889	2,261,893
Real estate - mortgage			
Secured by 1-4 family residential	4,281,303	5,163,616	4,472,626
Non-farm, nonresidential properties	5,098,396	4,896,649	5,027,161
Multi-family (5 or more) residential	822,713	841,370	843,631
Secured by farmland	482,903	467,118	489,584
Home equity	1,674,379	1,028,002	1,538,088
Consumer	1,900,904	2,225,097	1,989,835
	<u>67,012</u>	<u>99,913</u>	<u>73,768</u>
Direct lease financing			
Total loans	22,737,627	23,067,156	22,797,707
Less: Unearned income	(23,012)	(20,800)	(22,975)
	<u>(350,962)</u>	<u>(351,452)</u>	<u>(350,931)</u>
Allowance for losses on loans)))
Net loans	22,363,653	22,694,904	22,423,801
Premises and equipment, net	532,663	553,742	540,183
Accrued interest receivable	204,454	222,820	207,869
Mortgage servicing rights, net	240,287	184,981	264,295
Goodwill, net	743,212	715,000	743,212
Other intangibles, net	183,441	206,308	188,729
Other assets	<u>441,523</u>	<u>436,647</u>	<u>366,016</u>

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	<u>\$ 34,160,828</u>	<u>\$ 32,062,752</u>	<u>\$ 34,144,363</u>
Total assets			
Liabilities and shareholders' equity			
Deposits			
Noninterest-bearing	\$ 5,109,821	\$ 4,369,138	\$ 5,035,464
Time deposits of \$100,000 and over	1,636,165	1,681,139	1,674,952
	<u>17,797,243</u>	<u>17,711,608</u>	<u>16,620,024</u>
Other interest-bearing			
Total deposits	24,543,229	23,761,885	23,330,440
Short-term borrowings	2,512,290	1,654,296	3,635,208
Short- and medium-term senior notes	601,300	-	600,045
Federal Home Loan Bank advances	959,687	1,460,856	960,029
Other long-term debt	1,201,349	1,273,849	1,227,699
Accrued interest, expenses and taxes	258,630	281,891	260,275
	<u>794,784</u>	<u>395,579</u>	<u>904,385</u>
Other liabilities			
	<u>30,871,269</u>	<u>28,828,356</u>	<u>30,918,081</u>
Total liabilities			
Commitments and contingent liabilities (Note 14)	-	-	-
Shareholders' equity			
Convertible preferred stock	10,110	13,404	10,194
Common stock, \$5 par value; 300,000,000 shares authorized; 198,737,222 issued and outstanding (205,215,341 at March 31, 2002 and 198,434,384 at December 31, 2002)	993,686	1,026,077	992,172
Additional paid-in capital	542,265	538,057	537,417
Retained earnings	1,706,733	1,623,602	1,639,465
Unearned compensation	(21,603)	(12,553)	(20,118)
	<u>58,368</u>	<u>45,809</u>	<u>67,152</u>
Accumulated other comprehensive income			
	<u>3,289,559</u>	<u>3,234,396</u>	<u>3,226,282</u>
Total shareholders' equity			
	<u>\$ 34,160,828</u>	<u>\$ 32,062,752</u>	<u>\$ 34,144,363</u>
Total liabilities and shareholders' equity			

The accompanying notes are an integral part of these consolidated financial statements.

UNION PLANTERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

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	Three Months Ended <u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Interest income		
Interest and fees on loans	\$ 342,309	\$ 393,659
Interest on investment securities		
Taxable	51,757	55,041
Tax-exempt	8,633	13,145
Interest on deposits at financial institutions	452	576
Interest on federal funds sold and securities purchased under agreements to resell	155	698
Interest on trading account assets	2,287	2,278
Interest on loans held for resale	<u>28,009</u>	<u>22,527</u>
Total interest income	<u>433,602</u>	<u>487,924</u>
Interest expense		
Interest on deposits	80,412	121,649
Interest on short-term borrowings	9,272	7,903
Interest on long-term debt	<u>32,613</u>	<u>38,277</u>
Total interest expense	<u>122,297</u>	<u>167,829</u>
Net interest income	311,305	320,095
Provision for losses on loans	<u>48,649</u>	<u>44,991</u>
Net interest income after provision for losses on loans	<u>262,656</u>	<u>275,104</u>
Noninterest income		
Service charges on deposit accounts	57,722	52,293
Mortgage banking revenues	86,475	49,662
Factoring commissions and fees	9,900	9,025
Professional employment organization, net revenues	6,391	5,454
Bankcard transaction fees	9,683	8,012
Investment securities gains	18,956	9,236
Financial services	17,734	19,488
Other income	<u>24,484</u>	<u>22,203</u>
Total noninterest income	<u>231,345</u>	<u>175,373</u>

Noninterest expense		
Salaries and employee benefits	136,918	132,763
Net occupancy expense	25,743	25,808
Equipment expense	20,194	21,055
Intangibles amortization	5,290	5,458
Mortgage intangibles expense	81,802	4,332
Other expense	<u>81,514</u>	<u>76,437</u>
Total noninterest expense	<u>351,461</u>	<u>265,853</u>
Earnings before income taxes	142,540	184,624
Income taxes	<u>8,829</u>	<u>57,122</u>
Net earnings	<u>\$ 133,711</u>	<u>\$ 127,502</u>
Net earnings applicable to common shares	<u>\$ 133,510</u>	<u>\$ 127,268</u>
Earnings per common share		
Basic	\$.67	\$.61
Diluted	.67	.61
Dividends per common share	.33	.33
Average common shares outstanding (in thousands)		
Basic	198,549	205,449
Diluted	200,355	208,363

The accompanying notes are an integral part of these consolidated financial statements.

UNION PLANTERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income
	Shares	Amount	Shares	Amount	Capital	Earnings	Compensation	Incor
	(Dollars in thousands)							
31, 2002	408	\$ 10,194	198,434	\$ 992,172	\$ 537,417	\$ 1,639,465	\$ (20,118)	\$
ome	-	-	-	-	-	133,711	-	-
ve income, net of taxes:	-	-	-	-	-	-	-	(

Unrealized gain on investment securities	-	-					
Comprehensive income							
Dividends	-	-	-	-	-	(66,242)	-
Dividends - Series E	-	-	-	-	-	(201)	-
Expenses under employee benefit plans, net of exchanges	-	-	297	1,482	4,796	-	(2,128)
Restricted stock grants	-	-	-	-	-	-	643
	<u>(4)</u>	<u>(84)</u>	<u>32</u>	<u>52</u>	<u>-</u>	<u>-</u>	<u>-</u>
Preferred stock))	<u>6</u>				
	<u>404</u>	<u>\$ 10,110</u>	<u>\$ 993,686</u>	<u>\$ 542,265</u>	<u>\$ 1,706,733</u>	<u>\$ (21,603)</u>	
2003		<u>198,737</u>)	\$

The accompanying notes are an integral part of these consolidated financial statements.

UNION PLANTERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	<u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Operating activities		
Net earnings	\$ 133,711	\$ 127,502
Reconciliation of net earnings to net cash provided by operating activities:		
Provision for losses on loans	48,649	44,991
Depreciation and amortization of premises and equipment	16,580	16,782
Amortization of goodwill and other intangibles	5,290	5,458
Amortization and impairment of mortgage servicing rights,	81,802	4,332
net		
Net amortization of investment securities	3,472	2,421
Net realized gains on sales of investment securities	(18,956)	(9,236)
Gain on sale of residential mortgage loans	(47,135)	(13,228)
Gain on sale of branches	(2,026)	(1,599)
Deferred income tax (benefit) expense	(3,995)	4,929
Decrease in trading account assets and loans held for resale	367,972	684,978
(Increase) decrease in other assets	(88,756)	130,883
Net increase	4,646	(54,713)
(decrease) in accrued interest, expenses, taxes and other liabilities		

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Other, net	_____ -	_____ 481
Net cash provided by operating activities	<u>501,254</u>	<u>943,981</u>
Investing activities		
Net decrease (increase) in short-term investments	10,756	(23,701)
Proceeds from sales of available for sale securities	748,106	274,247
Proceeds from maturities, calls and prepayments of available for sale securities	807,564	331,648
Purchases of available for sale securities	(2,371,948)	(663,288)
Net (increase) decrease in loans	(24,291)	76,572
Purchases of premises and equipment	(10,260)	(27,231)
Proceeds from premises and equipment	<u>518</u>	<u>11,790</u>
Net cash used by investing activities	<u>(839,555)</u>	<u>(19,963)</u>
))
Financing activities		
Net increase in deposits	1,194,541	376,935
Net decrease in short-term borrowings	(1,122,918)	(1,419,968)
Repayment of long-term debt	(25,344)	(2,007)
Net cash paid for sales of deposits	(16,106)	(40,761)
Net cash received from deposits assumed	37,286	-
Proceeds from sale of subsidiary stock, net	86,893	-
Proceeds from issuance of common stock	6,855	7,494
Purchase and retirement of common stock	-	(46,933)
Cash dividends paid	<u>(66,308)</u>	<u>(69,335)</u>
Net cash provided (used) by financing activities	<u>94,899</u>	<u>(1,194,575)</u>
))
Net decrease in cash and cash equivalents	(243,402)	(270,557)
Cash and cash equivalents at the beginning of the period	<u>1,130,147</u>	<u>966,913</u>
Cash and cash equivalents at the end of the period	<u>\$ 886,745</u>	<u>\$ 696,356</u>

Supplemental disclosures

Cash paid for

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Interest	\$ 127,328	\$ 182,738
Income taxes	408	19,629
Non-cash items		
Unrealized gain on securities available for sale	92,690	72,266
Available for sale securities, pending settlement	305,344	-
Transfers to other real estate from loans	35,788	3,614

The accompanying notes are an integral part of these consolidated financial statements.

UNION PLANTERS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The foregoing financial statements are unaudited; however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods have been included.

The accounting policies followed by Union Planters Corporation and its subsidiaries (collectively, Union Planters or the Company) for interim financial reporting are consistent with the accounting policies followed for annual financial reporting except for newly issued accounting pronouncements discussed below. The notes included herein should be read in conjunction with the 2002 Annual Financial Disclosures (Annual Financial Disclosures) attached as Appendix F of Union Planters Definitive Proxy Statement for the Annual Shareholders' Meeting held April 17, 2003, which is filed on Schedule 14A and incorporated by reference in Union Planters' Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform with the 2003 financial reporting presentation.

In October 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 147, *Acquisitions of Certain Financial Institutions*, which amended the accounting for acquisitions of branches qualifying as a business. Such acquisitions are now accounted for in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. During the fourth quarter of 2002, Union Planters adopted this standard and, as required, reversed approximately \$6.8 million of pre-tax amortization expense incurred during the first nine months of 2002. The financial position and results of operations for the quarter ended March 31, 2002 have been restated, as required, to reflect the adoption of SFAS No. 147.

Costs associated with Exit or Disposal Activities.

In June of 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Previous guidance required expenses for exit or disposal activities to be accrued when management approved the exit or disposal plan and the liability was probable and quantifiable regardless of when the expense would be incurred. This standard requires that liabilities or costs associated with such activities be recognized when incurred. This standard also requires that any such liability be recognized initially at fair value. The provisions of this standard are effective for exit or disposal activities initiated after December 31, 2002 with earlier application permitted. Union Planters adopted the new standard on January 1, 2003. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

Stock-Based Compensation.

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Union Planters has currently elected not to adopt the recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, which requires a fair-value based method of accounting for stock options and similar equity awards. As permitted under SFAS No. 123, Union Planters continues to apply Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock compensation plans and, accordingly, does not recognize compensation cost, except for stock grants. Had compensation cost for Union Planters stock option plans been consistently expensed based on fair value at the grant date for awards under the methodology prescribed under SFAS No. 123, Union Planters' net income and earnings per share would have been reduced as shown in the table below. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions in 2003 and 2002 respectively: expected dividend yield of 4.59% and 4.44%; expected volatility of 26.79%, and 32.89%; risk-free interest rate of 2.16% and 1.56%; and an expected life of 2.3 years for both periods. Forfeitures are recognized as they occur. This schedule excludes the earnings impact of options acquired and accelerated through acquisitions.

	<u>Three months ended March 31,</u>	
	—	—
	<u>2003</u>	<u>2002</u>
	(Dollars in millions, except per share data)	
Weighted average fair value per share, at grant date	\$ 4.19	\$ 3.60
Net earnings - as reported	\$ 133.7	\$ 127.5
Net earnings - pro-forma	130.7	124.1
Earnings per share - as reported	.67	.61
Basic ⁽¹⁾	.67	.61
Diluted		
Earnings per share - pro-forma	.66	.60
Basic ⁽¹⁾	.65	.60
Diluted		

(1)

For the purpose of calculating basic earnings per share, net earnings is adjusted by the dividend on preferred stock, which was \$201.4 thousand in 2003 and \$233.9 thousand in 2002.

Recent Accounting Pronouncements

Derivative Financial Instruments. In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and is effective for contracts entered into or modified after June 30, 2003. Union Planters is still assessing the impact of this statement but does not expect it to have a material effect on the Company's financial condition, results of operations or cash flows.

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Note 2. Investment Securities

The following is a summary of Union Planters investment securities, all of which were classified as "available for sale":

	Amortized	Unrealized		Fair Value
	Cost	Gains	Losses	
(Dollars in thousands)				
<u>March 31, 2003</u>				
U.S. Government and federal agencies				
U.S. Treasury	\$ 64,764	\$ 2,335	\$ 2	\$ 67,097
U.S. Government agencies				
Collateralized mortgage obligations	1,111,184	11,388	8	1,122,564
Mortgage-backed	1,651,979	17,122	-	1,669,101
Other	<u>1,147,034</u>	<u>11,744</u>	<u>844</u>	<u>1,157,934</u>
Total U.S. Government and federal agencies	3,974,961	42,589	854	4,016,696
Obligations of states and political subdivisions	681,330	36,232	88	717,474
Collateralized mortgage obligations	877,675	13,021	1,856	888,840
Other stocks and securities	<u>456,959</u>	<u>4,166</u>	<u>520</u>	<u>460,605</u>
Total available for sale securities	<u>\$ 5,990,925</u>	<u>\$ 96,008</u>	<u>\$ 3,318</u>	<u>\$ 6,083,615</u>
<u>December 31, 2002</u>				
U.S. Government and federal agencies				
U.S. Treasury	\$ 65,732	\$ 2,529	\$ 7	\$ 68,254
U.S. Government agencies				
Collateralized mortgage obligations	927,983	14,763	9	942,737
Mortgage-backed	1,190,094	24,866	1,197	1,213,763
Other	<u>1,009,661</u>	<u>13,312</u>	<u>17</u>	<u>1,022,956</u>
Total U.S. Government and federal agencies	3,193,470	55,470	1,230	3,247,710
Obligations of states and political subdivisions	715,187	34,508	135	749,560
Collateralized mortgage obligations	1,016,480	17,356	2,649	1,031,187
Other stocks and securities	<u>435,906</u>	<u>3,620</u>	<u>700</u>	<u>438,826</u>
Total available for sale securities	<u>\$ 5,361,043</u>	<u>\$ 110,954</u>	<u>\$ 4,714</u>	<u>\$ 5,467,283</u>

Other Comprehensive Income

The following table presents a reconciliation of the net change in unrealized gains (losses) on available for sale securities for the three months ended March 31, 2003:

Before Tax Tax Net of Tax

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	<u>Amount</u>	<u>Expense</u>	<u>Amount</u>
	(Dollars in thousands)		
<u>Three months ended March 31, 2003</u>			
Change in the unrealized gains/losses on available for sale securities arising during the period	\$ 5,406	\$ 2,060	\$ 3,346
Less: Reclassification for gains included in net earnings	<u>18,956</u>	<u>(6,826)</u>	<u>12,130</u>
)	
Net change in the unrealized gain on available for sale securities	<u>\$ (13,550)</u>	<u>\$ 4,766</u>	<u>\$ (8,784)</u>
))

Investment securities having a fair value of approximately \$2.4 billion at March 31, 2003 and at December 31, 2002 were pledged to secure public and trust funds on deposit, securities sold under agreements to repurchase and Federal Home Loan Bank (FHLB) advances.

Included in available for sale investment securities is \$275.9 million and \$273.6 million of FHLB and Federal Reserve Bank stock at March 31, 2003 and December 31, 2002, respectively, for which there is no readily determinable market value.

The following table presents the gross realized gains and losses on available for sale investment securities for the three months ended March 31, 2003:

	<u>Three Months Ended</u> <u>March 31,</u>	
	(Dollars in thousands)	
	<u>2003</u>	<u>2002</u>
Realized gains	\$ 19,408	\$ 9,425
Realized losses	(452)	(189)

The losses during the first quarter of 2003 are related to interest only strips arising from Union Planters' sales and securitizations of mortgage loans, which had an other than temporary decline in value due to increased prepayment speeds on the underlying mortgages that was accounted for as a realized loss.

Note 3. Allowance for Losses on Loans and Nonperforming Loans

The changes in the allowance for losses on loans for the three months ended March 31, 2003 and 2002 are as follows:

	<u>Three Months Ended</u> <u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Beginning balance	\$ 350,931	\$ 341,930
Provision for losses on loans	48,649	44,991
Recoveries of loans previously charged off	9,094	8,798
Loans charged off	<u>(57,712)</u>	<u>(44,267)</u>

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))
Ending balance	<u>\$ 350,962</u>	<u>\$ 351,452</u>

Nonperforming loans are summarized as follows:

	March 31, <u>2003</u>	December 31, <u>2002</u>
	(Dollars in thousands)	
Nonaccrual loans	\$ 242,164	\$ 262,609
Restructured loans	<u>481</u>	<u>511</u>
Total nonperforming loans	<u>\$ 242,645</u>	<u>\$ 263,120</u>

Note 4. Transfers of Financial Assets

Union Planters acted as servicing agent on behalf of others for residential mortgage loans totaling approximately \$20.6 billion at March 31, 2003, compared to \$20.0 billion at December 31, 2002. The principal balances of loans serviced for others are not included in Union Planters' consolidated balance sheet. The following table presents a reconciliation of the changes in mortgage servicing rights:

	Three Months Ended <u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Mortgage Servicing Rights, Net		
Beginning balance	\$ 264,295	\$ 150,303
Additions	57,794	39,010
Amortization of servicing rights	(10,267)	(9,569)
(Provision for) recovery of impairment	<u>(71,535)</u>	<u>5,237</u>
))
Ending balance	<u>\$ 240,287</u>	<u>\$ 184,981</u>

	Three Months Ended <u>March 31,</u>	
	<u>2003</u>	<u>2003</u>
	(Dollars in thousands)	
Valuation Allowance		
Beginning balance	\$ 12,297	\$ 15,120
Provision for (recovery of) impairment	<u>71,535</u>	<u>(5,237)</u>
))
Ending balance	<u>\$ 83,832</u>	<u>\$ 9,833</u>

The estimated fair value of mortgage servicing rights at March 31, 2003 was \$241.6 million. Significant assumptions utilized in estimating the fair value were as follows:

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Estimated portfolio	14.5% - 36.9%
prepayment speeds	CPR
Market discount rates	9.0% - 12.0%

Both of the significant assumptions above directly relate to and move in concert with mortgage interest rates. In the view of management, in order to understand the hypothetical effect on the fair value of the mortgage servicing rights as a result of unfavorable variations in the significant assumptions, it is necessary to measure the effect that would result from a decline in mortgage interest rates. At March 31, 2003, the reduction in the current fair value of mortgage servicing rights resulting from an immediate 50 and 100 basis point decline in mortgage interest rates would be approximately \$41.1 million and \$86.9 million, respectively. The actual decline in fair value related to decreased mortgage interest rates could differ significantly from this estimate due to the propensity of borrowers to refinance in light of the remaining life and unpaid principal balance of their existing mortgage loan and the costs related to refinancing.

Note 5. Intangible Assets

In accordance with SFAS No. 142, most goodwill is no longer subject to amortization but is assessed at least annually for impairment. The carrying value of goodwill not subject to amortization was \$743.2 million at March 31, 2003 and December 31, 2002 and \$715.0 million at March 31, 2002. At each of these dates, \$50.7 million of the goodwill was in the "other operating units" line of business, with the remainder in the "banking" line of business.

Union Planters' other intangible assets are core deposit intangibles acquired through bank acquisitions and other unidentified intangibles arising from branch purchases and are subject to amortization periods up to 15 years with no residual value. The gross amount of other intangible assets at March 31, 2003, December 31, 2002 and March 31, 2002 was \$316.3 million, with accumulated amortization of \$132.9 million, \$127.6 million and \$110.0 million, respectively. All other intangibles are in the "banking" line of business. The weighted average amortization period is 165.3 months. Amortization expense over the next five years on current other intangibles is expected to be:

(Dollars in thousands)

Total	\$ 20,857
2003	
2004	20,757
2005	20,628
2006	20,279
2007	18,340

Note 6. Borrowings

Short-Term Borrowings

Short-term borrowings include short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. Short-term FHLB advances are borrowings from the FHLB, which are collateralized by mortgage-backed securities and mortgage loans. Federal funds purchased arise from Union Planters' market activity with its correspondent banks and generally mature in one business day. Securities sold under agreements to repurchase are collateralized by U.S. Government and agency securities.

Short-term borrowings are summarized as follows:

_____ March 31, _____ December 31,

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	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in thousands)		
Balances at period-end			
Federal funds purchased	\$ 1,168,656	\$ 334,686	\$ 898,670
Securities sold under agreements to repurchase	1,294,096	1,319,610	1,394,899
Other short-term borrowings	<u>49,538</u>	<u>-</u>	<u>1,341,639</u>
Total short-term borrowings	<u>\$ 2,512,290</u>	<u>\$ 1,654,296</u>	<u>\$ 3,635,208</u>
Federal funds purchased and securities sold under agreements to repurchase			
Year-to-date daily average balance	\$ 2,547,340	\$ 2,062,268	\$ 2,182,949
Weighted average interest rate	1.05%	1.47%	1.40%
Short-term FHLB advances			
Year-to-date daily average balance	\$ 456,667	\$ 57,778	\$ 167,945
Weighted average interest rate	1.28%	1.82%	1.69%

Short- and Medium-Term Senior Notes

Union Planters has a \$5.0 billion senior and subordinated bank note program. Under the program, Union Planters Bank, National Association (UPB) may issue senior bank notes with maturities ranging from 30 days to one year from their respective issue dates (Short-term Senior Notes), senior bank notes with maturities more than one year to 30 years from their respective dates of issue (Medium-term Senior Notes) and subordinated bank notes with maturities from 5 years to 30 years from their respective dates of issue (Subordinated Notes).

At March 31, 2003, there were no Subordinated Notes and no Short-term Senior Notes outstanding under this program.

During 2002, UPB issued \$600 million in 5.125% fixed-rate Medium-term Senior Notes. The notes mature in June 2007. The amount of Medium-term Senior Notes outstanding at March 31, 2003 and December 31, 2002, was \$601.3 million and \$600.0 million, respectively. These amounts include valuation adjustments related to hedging activities of \$3.0 million and \$1.8 million at March 31, 2003 and December 31, 2002, respectively.

Federal Home Loan Bank Advances

Certain of Union Planters' banking and thrift subsidiaries had outstanding advances with original maturity dates of greater than one year from the FHLB under Blanket Agreements for Advances and Security Agreements (the Agreements). The Agreements enable these subsidiaries to borrow funds from the FHLB to fund mortgage loan programs and to satisfy certain other funding needs. The value of the mortgage-backed securities and mortgage loans pledged under the Agreements must be maintained at not less than 115% and 150%, respectively, of the outstanding advances. At March 31, 2003, Union Planters had an adequate amount of mortgage-backed securities and loans to satisfy the collateral requirements. A summary of the advances is as follows:

	<u>March 31,</u>		December 31,
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in thousands)		
Balance at period-end	\$ 959,687	\$ 1,460,856	\$ 960,029
Range of interest rates	1.35% - 6.55%	1.75% - 6.92%	1.35% - 6.55%
Range of maturities	2003 - 2021	2002 - 2021	2003 - 2021

Other Long-Term Debt

Union Planters' other long-term debt is summarized as follows. Reference is made to Note 9 to the consolidated financial statements in the Proxy and Annual Financial Disclosures for additional information regarding these

borrowings.

	<u>March 31,</u>		December 31,
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in thousands)		
8.20% Trust Preferred Securities	\$ 199,159	\$ 199,124	\$ 199,151
6.25% Subordinated Notes due 2003	74,470	74,417	99,832
6.75% Subordinated Notes due 2005	99,847	99,788	74,457
7.75% Subordinated Notes due 2011	499,287	499,197	499,265
6.50% Putable/Callable Subordinated Notes due 2018	301,417	300,636	301,512
Variable-rate asset-backed certificates	16,667	100,000	41,667
Other long-term debt	661	687	663
Valuation adjustments related to hedging activities	<u>9,841</u>	<u>-</u>	<u>11,152</u>
Total other long-term debt	<u>\$ 1,201,349</u>	<u>\$ 1,273,849</u>	<u>\$ 1,227,699</u>

Note 7. Shareholders' Equity

Common Stock

During the second quarter of 2002, the Union Planters Board of Directors declared a three-for-two stock split, in the form of a 50% stock dividend, on the shares of Union Planters common stock. The additional shares were paid on June 6, 2002 to shareholders of record at the close of business on May 22, 2002. As a result of the stock split, 67.6 million shares were issued, and cash in the amount of \$.3 million was paid in lieu of fractional shares. All share and per share information has been adjusted for the impact of the split.

Preferred Stock

Union Planters' outstanding preferred stock, all of which is convertible into shares of Union Planters' common stock, is summarized as follows:

	<u>March 31,</u>		December 31,
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in thousands)		
Preferred stock, without par value, 10,000,000 shares authorized			
Series E, 8% cumulative, convertible, preferred stock (stated at liquidation value of \$25 per share) 404,391 shares issued and outstanding (536,148 at March 31, 2002 and 407,770 at December 31, 2002)	\$ 10,110	\$ 13,404	\$ 10,194
Series F preferred stock			
300,000 shares authorized, none issued	<u>-</u>	<u>-</u>	<u>-</u>
Total preferred stock	<u>\$ 10,110</u>	<u>\$ 13,404</u>	<u>\$ 10,194</u>

Note 8. Preferred Stock of Subsidiary

In March 2003, Union Planters Preferred Funding Corporation (UPPFC), an indirect majority-owned, consolidated subsidiary of Union Planters, issued 1,000 shares of 7.75% non-cumulative, perpetual preferred stock, Series B (Series B Preferred Shares), with a liquidation value of \$100,000 per share to another wholly-owned subsidiary of Union Planters, U.P. REIT Holdings, Inc. (UP REIT Holdings). UPPFC is a real-estate investment trust (REIT) established for the purpose of acquiring, holding and managing real estate mortgage assets. All of the Series B Preferred Shares were subsequently sold privately to non-affiliates without registration. These securities qualify as Tier I capital and are included in the consolidated balance sheet in other liabilities. Dividends on the Series B Preferred Shares are payable quarterly and will be recorded in the consolidated statement of earnings in other noninterest expense.

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The Series B Preferred Shares are redeemable on or after July 15, 2023 and redeemable at the discretion of UPPFC in the event that the Series B Preferred Shares cannot be accounted for as Tier 1 regulatory capital or there is more than an insubstantial risk that dividends paid with respect to the Series B Preferred Shares will not be fully tax deductible. The total amount of Series B Preferred Shares issued and outstanding on March 31, 2003, as reported in other liabilities on the consolidated balance sheet net of discount and issuance costs, was \$86.9 million.

Concurrent with the issuance of the Series B Preferred Shares, UPPFC also issued 3,736 shares of non-cumulative, perpetual preferred stock, Series C (Series C Preferred Shares), with a liquidation value of \$100,000 per share to UP REIT Holdings. The holder of each of the Series C Preferred Shares is entitled to dividends, payable quarterly, at an annual rate of three month LIBOR plus 3% on the liquidation value. Additionally, the Series C Preferred Shares rank equal to the Series B Preferred Shares. At March 31, 2003, UP REIT Holdings continued to own all of the Series C Preferred Shares. So long as the Series C Preferred Shares are owned by Union Planters or a consolidated subsidiary, neither the shares nor dividends paid thereon will be reflected in the consolidated financial statements.

The Series B Preferred Shares and the Series C Preferred Shares are not convertible into any other securities of UPPFC, Union Planters or any of its subsidiaries. The Series B Preferred Shares are, however, automatically exchangeable at the direction of the Office of the Comptroller of the Currency (OCC) for preferred stock of UPB, having substantially the same terms as the Series B Preferred Shares in the event UPB becomes undercapitalized under the OCC's "prompt corrective actions" regulations, insolvent or, in the OCC's sole discretion, in danger of becoming undercapitalized. Should UPPFC not pay dividends on the Series B Preferred Shares or the Series C Preferred Shares, both UPPFC and UPB will be precluded from paying dividends on their common stock until dividends have been paid on the Series B Preferred Shares for four consecutive quarters.

Note 9. Other Noninterest Income and Expense

	Three Months Ended	
	<u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
Other noninterest income		
Merchant services income	\$ 1,418	\$ 803
Profits and commissions from Small Business Administration trading activities	1,108	1,314
Letters of credit fees	2,741	1,953
Other real estate revenue	1,285	2,672
Net gain on sales of branches/deposits and other assets	2,026	1,599
Earnings of equity method investments	1,814	1,355
Other income	<u>14,092</u>	<u>12,507</u>
Total other noninterest income	<u>\$ 24,484</u>	<u>\$ 22,203</u>
Other noninterest expense		
Communications	\$ 7,042	\$ 7,301
Other contracted services	10,686	8,690
Postage and carrier	6,374	6,658

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Advertising and promotion	9,710	7,254
Stationery and supplies	4,185	4,684
Other personnel services	4,097	3,935
Legal fees and litigation	2,647	3,068
Travel	2,345	2,486
Miscellaneous charge-offs	4,620	1,959
Federal Reserve fees	1,501	1,713
Taxes other than income	587	2,272
Accounting, tax and audit fees	765	1,877
Consultant fees	2,006	427
Brokerage and clearing fees on trading activities	1,322	1,473
Other real estate expense	1,792	1,011
FDIC insurance	925	1,033
Dues, subscriptions and contributions	935	2,121
Bank examiner fees	996	989
Insurance	1,987	987
Credit related expenses	10,620	9,836
	<u>6,372</u>	<u>6,663</u>
Other noninterest expense		
Total other noninterest expense	<u>\$ 81,514</u>	<u>\$ 76,437</u>

Note 10. Income Taxes

Applicable income taxes for the three months ended March 31, 2003 were \$8.8 million, resulting in an effective tax rate of 6.19%. Applicable income taxes for the same period in 2002 were \$57.1 million, resulting in an effective tax rate of 30.94%. During the first quarter of 2003, the Company recorded two transactions causing the substantial decrease in the effective tax rate from the first quarter of 2002 to the first quarter of 2003: a current federal tax benefit of \$25.0 million related to the completion of a transaction designed to raise Tier 1 capital and an \$11.0 million current federal tax benefit related to a reversal of previously established tax liability, which was no longer needed.

At March 31, 2003, the Corporation had a net deferred tax asset of \$23.1 million compared to \$14.3 million at December 31, 2002. The net deferred tax asset includes a deferred tax liability related to the net unrealized gain on available for sale securities of \$34.3 million and \$39.1 million at March 31, 2003 and December 31, 2002, respectively. Based upon historical earnings and anticipated future earnings, management believes that normal operations will generate sufficient future taxable income to realize in full these deferred tax benefits. Therefore, no extraordinary strategies are deemed necessary by management to generate sufficient taxable income for purposes of realizing the net deferred tax asset.

Note 11. Earnings Per Share

The calculation of earnings per share is summarized as follows:

Three Months Ended

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	<u>March</u>	
	<u>31,</u>	
	<u>2003</u>	<u>2002</u>
	(amounts in thousands, except per share data)	
Basic:		
Net earnings	\$ 133,711	\$ 127,502
Less: Preferred dividends	<u>201</u>	<u>234</u>
Net earnings applicable to common shares	<u>\$ 133,510</u>	<u>\$ 127,268</u>
Average common shares outstanding	<u>198,549</u>	<u>205,449</u>
Earnings per common share-basic	<u>\$ 0.67</u>	<u>\$ 0.61</u>
Diluted:		
Net earnings	<u>\$ 133,711</u>	<u>\$ 127,502</u>
Average common shares outstanding	198,549	205,449
Stock option adjustment	1,045	1,838
Preferred stock adjustment	<u>761</u>	<u>1,076</u>
Average common shares outstanding, adjusted	<u>200,355</u>	<u>208,363</u>
Earnings per common share-diluted	<u>\$ 0.67</u>	<u>\$ 0.61</u>

Excluded from the computation of diluted shares were options to purchase 4.8 million and 2.3 million shares that were outstanding at March 31, 2003 and 2002, respectively, because the exercise price of these options was greater than the average market price of the common shares, and therefore, the effect would be antidilutive.

Note 12. Derivative Financial Instruments

Union Planters uses derivative instruments to manage risk associated with certain assets and liabilities.

The Company's mortgage commitment pipeline is exposed to interest rate risk associated with interest rate lock commitments (IRLCs) extended to individuals who have applied for loan funding and meet certain defined credit and underwriting criteria. IRLCs are nondesignated derivatives and are recorded at fair value with changes in value recorded in current earnings. The fair value of these IRLCs at March 31, 2003 was \$20.7 million compared to \$18.7 million at December 31, 2002. The Company is also exposed to credit and interest-rate risk related to its mortgage inventory from the time a loan is closed until completion of normal post-closing review and the subsequent sale of the loan, normally 60 to 90 days.

To mitigate interest rate risk associated with mortgage activities, Union Planters enters into mandatory and optional short-term forward contracts, which are contracts for delayed delivery of mortgages in which the Company agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of the counterparties to meet the terms of their contracts and from market movements in securities values and interest rates. Since derivative instruments that hedge other derivative instruments do not qualify for hedge treatment under SFAS No. 133, IRLCs and associated forwards are effectively accounted for as marked-to-market through earnings. Forwards associated with closed loans pending review and sale are designated as fair value hedges and maintained at fair value with changes in value recorded in earnings. The fair value of forward contracts at March 31, 2003 was (\$27.3) million compared to (\$48.8) million at December 31, 2002.

Gains/losses on nondesignated IRLCs, related derivative contracts and ineffectiveness of fair value mortgage hedge

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agreements totaled a net amount of \$4.8 million for the first quarter of 2003 compared to (\$2.8) million for the first quarter of 2002 and \$8.1 million for the fourth quarter of 2002, and are included in mortgage banking revenue.

The Company commits to buy certain loans under best efforts commitments, which are agreements whereby a correspondent lender or broker has the option to sell a loan to the Company at a stated price. If the correspondent lender or broker does not exercise the option, no transaction takes place. Under the provisions of SFAS No. 133, the best efforts commitments are defined as undesignated derivatives and therefore are marked-to-market. The impact on the consolidated financial statements of best efforts commitments is immaterial.

To mitigate interest rate risk associated with certain deposits and debt, Union Planters has entered into interest rate swaps that qualify as fair value hedges. The swaps and the related debt are reported on the balance sheet at current fair value at the end of each period. The changes in fair value of both the hedged item and the swap along with the net interest income or expense on the swap are netted against the interest expense related to the hedged item on the statement of earnings. During the first quarter of 2003, Union Planters entered into two-interest rate swaps with a notional value of \$1.0 billion to hedge the fair value of certain debt.

At March 31, 2003, all of Union Planters' interest rate swap agreements had a fair value of \$19.5 million, which is included in other assets. The ineffective portion of the hedge had an immaterial impact on interest expense during the quarter ended March 31, 2003. No swaps were outstanding during the quarter ended March 31, 2002.

During the first quarter of 2003, Union Planters terminated an interest rate swap agreement and its associated deposit hedging relationship. As a result, the fair value adjustment of the original pool of deposits at the date of termination, \$4.3 million, will be amortized over 47 months, which was the remaining life of the pool. Amortization related to this terminated hedge and a similar hedge terminated during 2002 had an immaterial impact on interest expense.

Note 13. Line of Business Reporting

	<u>Three Months Ended March 31, 2003</u>				<u>Consolidated Total</u>
	<u>Mortgage Banking</u>	<u>Mortgage Banking</u>	<u>Other Operating Units</u>	<u>Parent Company</u>	
Net interest income (expense)	\$ 272,845	\$ 34,662	\$ 12,940	\$ (9,142)	\$ 311,305
Provision for losses on loans	(6,400)	(6,299)	(10,950)	-	(48,649)
Noninterest income (1)	147,240	61,732	22,357	16	231,345
Noninterest expense	(195,685)	(118,125)	(34,907)	(2,744)	(351,461)
Earnings (loss) before taxes	\$ 103,000	\$ (28,030)	\$ (10,560)	\$ (11,870)	\$ 142,540
Average assets	\$ 27,499,059	\$ 3,573,735	\$ 1,295,178	\$ 864,026	\$ 33,231,998

	<u>Three Months Ended March 31, 2002</u>				<u>Consolidated Total</u>
	<u>Mortgage Banking</u>	<u>Mortgage Banking</u>	<u>Other Operating Units</u>	<u>Parent Company</u>	
Net interest income (expense)	\$ 292,275	\$ 27,231	\$ 12,959	\$ (12,370)	\$ 320,095
Provision for losses on loans	(6,469)	(6,301)	(2,221)	-	(44,991)
Noninterest income (1)	115,102	37,749	22,375	147	175,373
Noninterest expense	(192,646)	(35,668)	(35,524)	(2,015)	(265,853)

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)))))
Earnings (loss) before taxes	<u>178,062</u>	<u>\$ 23,011</u>	<u>\$ (2,411)</u>	<u>\$ (14,238)</u>	<u>\$ 184,624</u>
)))))
Average assets	\$ 27,753,461	\$ 3,147,873	\$ 1,345,516	\$ 179,838	\$ 32,426,688

1. Parent company noninterest income and earnings before income taxes are net of the intercompany dividend eliminations of \$461.6 million and \$70.5 million for the three months ended March 31, 2003 and 2002, respectively.

Note 14. Contingent Liabilities

Union Planters and/or its subsidiaries are parties to various legal proceedings that have arisen in the ordinary course of business and are parties to various pending civil actions, all of which are being defended vigorously. Certain proceedings previously outstanding have been subsequently settled within previously estimated amounts. While it is impossible to predict with certainty the outcome of any legal proceeding, based upon present information including evaluations by outside counsel, management is of the opinion that neither Union Planters' financial position, results of operations nor liquidity will be materially adversely affected by the ultimate resolution of pending or threatened legal proceedings. Activity affecting the Company's litigation reserve (i.e., provision for losses and settlement of claims) was not material to the Company's operations for the three months ended March 31, 2003 or 2002. Reference is made to Part II Item 1 for a discussion of legal proceedings.

Note 15. Subsequent Event

Between April 1, 2003 and May 12, 2003, Union Planters repurchased and retired 1.3 million shares of its common stock. Through May 12, 2003, 10.3 million of the approved 25.7 million shares have been repurchased and retired under repurchase plans previously approved by the Board of Directors.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following provides a narrative discussion and analysis of significant changes in Union Planters' results of operations and financial condition. This discussion should be read in conjunction with the notes to the consolidated financial statements included in Appendix F of Union Planters Corporation's Definitive Proxy Statement for the Annual Shareholders' Meeting held April 17, 2003 (the Definitive Proxy Statement including the 2002 Annual Financial Disclosures are referred to as the Proxy and Annual Financial Disclosures), the interim unaudited consolidated financial statements and notes for the three months ended March 31, 2003 Part I hereof and the supplemental financial data included in this discussion.

Cautionary Statement Regarding Forward-Looking Information

This discussion contains certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These statements are contained in certain sections that follow, such as Net Interest Income, Efficiency, Income Taxes, Provision for Losses on Loans, Noninterest Income, Noninterest Expense, Loans, Interest Rate Risk, as well as Market Risk and Asset/Liability Management in Item 3 and Legal Proceedings in Part II, Item 1. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments. The words "anticipate," "project," "expect," "believe," "intend,"

"estimate," "should," "is likely," "target" and other expressions that indicate future events and trends identify forward-looking statements. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Examples of factors that could cause future results to vary from current management expectations include the following: the timing and amount of interest rate movements (which can have a significant impact on a financial institution); effects of changes in general economic conditions, as well as economic conditions in markets in which Union Planters conducts business and impact in the United States of hostilities abroad; market and monetary fluctuations and uncertainties in the financial markets; inflation; competition within and outside the financial services industry; technology; risks inherent in originating loans, including prepayment risks, fluctuations in collateral values and changes in customer profiles; loan loss experience, the rate of loan charge-offs, the level of the provision for losses on loans and the receipt of information subsequent to the reporting date impacting the collectability of loans; and changes in enacted tax laws and regulations and accounting principles. Additionally, the policies of the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), and insurance and securities regulatory agencies, unanticipated regulatory and judicial proceedings, unanticipated results in pending litigation or Internal Revenue Service examinations, changes in the laws, regulations and regulatory policies applicable to Union Planters and its subsidiaries, and Union Planters' success in executing its business plans and strategies and managing the risks involved in the foregoing, could cause actual results to differ materially from current expectations. Union Planters assumes no obligation to update any forward-looking statements that are made from time to time.

Selected Financial Data

The following table presents selected financial data for the three-month periods ended March 31, 2003 and 2002:

	Three Months Ended		Percentage Change
	<u>March 31,</u> <u>2003</u>	<u>2002</u>	
	(Dollars in thousands, except per share data)		
Net earnings	\$ 133,711	\$ 127,502	4.9%
Per share			
Basic	.67	.61	9.8
Diluted	.67	.61	9.8
Return on average assets	1.63%	1.59%	
Return on average common equity	17.08	16.10	
Dividends per common share	\$.33	\$.33	
Net interest margin (FTE)	4.24%	4.53%	
Net interest spread (FTE)	3.86	4.02	
Expense ratio	1.28	.94	
Efficiency ratio	61.28	49.80	
Book value per common share at period-end	\$ 16.50	\$ 15.70	
Leverage ratio	8.00%	7.85%	
Tier 1 Capital to risk-weighted assets	10.04	9.99	
Common share prices			
High closing price	\$ 29.90	\$ 32.39	
Low closing price	26.24	29.33	
Closing price at period-end	26.29	31.59	

FTE = Fully taxable-equivalent basis

Net interest margin = Net interest income (FTE) as a percentage of average earning assets

Net interest spread = Difference in the FTE yield on average earning assets and the rate on average interest-bearing liabilities

Expense ratio = Net noninterest expense (noninterest expense minus noninterest income, excluding amortization of mortgage servicing rights and all other intangibles) divided by average assets

Efficiency ratio = Noninterest expense (excluding amortization of mortgage servicing rights and all other intangibles) divided by net interest income (FTE) plus noninterest income

FIRST QUARTER EARNINGS OVERVIEW

For the first quarter of 2003, Union Planters reported net earnings of \$133.7 million, or \$.67 per diluted common share, an increase from \$127.5 million, or \$.61 per diluted common share, for the same period in 2002. These earnings represented annualized returns on average assets and average common equity of 1.63% and 17.08%, respectively, compared to 1.59% and 16.10%, respectively, for the same period in 2002.

EARNINGS ANALYSIS

Net Interest Income

Fully taxable-equivalent net interest income for the first quarter of 2003 was \$316.8 million, a decrease of \$11.5 million from the same quarter last year. The net interest margin for the first quarter of 2003 was 4.24%, which compares to 4.53% for the first quarter of 2002. The net interest rate spread was 3.86% for the first quarter of 2003, which compares to 4.02% for the first quarter of 2002. Changes in net interest income and net interest margin since the first quarter of 2002 are the result of declining yield on earning assets due to lower interest rates and customer-driven refinancing of loans exceeding the favorable impact of lower rates on deposits liabilities and borrowings. Reference is made to Union Planters' average balance sheet, analysis of volume and rate changes and Market Risk and Asset/Liability Management section, in Item 3, which follow this discussion, for additional information regarding the changes in net interest income and balance sheet repositioning initiatives.

Interest Income

The following table presents a breakdown of average earning assets:

	<u>Three Months Ended</u>		
	<u>March 31,</u>	December	
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in billions)		
Average earning assets	\$ 30.3	\$ 29.4	\$ 29.4
Comprised of:			
Loans	75%	78%	76%
Investment securities	17	15	15
Loans held for resale	7	5	7
Other earning assets	1	2	2

Fully taxable-equivalent yield on average earning assets 5.87% 6.85% 6.15%

Fully taxable-equivalent interest income decreased \$57.0 million for the first quarter of 2003 compared to the same period in 2002. This decline was attributable primarily to a decrease in the average yield on earning assets from 6.85% to 6.15%, which reduced interest income by \$1.31 billion. The decline in yield is attributable primarily to declines in market interest rates and the planned run-off of selected loan products. The impact of lower rates was partly offset by a \$948.0 million increase in average earning assets, primarily home equity loans, investment securities and loans held for resale, which increased interest income \$1.25 billion. Reference is made to the Market Risk and Asset/Liability Management discussion in Item 3 for additional information regarding balance sheet management initiatives changes in interest rates and how the Company is positioned to respond to the changes.

Interest Expense

The following table presents a breakdown of average interest-bearing liabilities:

	<u>Three Months Ended</u>		
	<u>March 31,</u>	December	
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	(Dollars in billions)		
Average interest-bearing liabilities	\$ 24.7	\$ 24.1	\$ 24.6
Comprised of:			
Deposits	75%	80%	75%
Short-term borrowings	13	9	14
F e d e r a l H o m e L o a n	12	11	11
Bank advances and long-term debt			
Rate paid on average interest-bearing liabilities	2.01%	2.83%	2.22%

Interest expense decreased \$45.5 million in the first quarter of 2003 compared to the same quarter last year. This decrease was driven by a decline in the average rate paid for interest-bearing liabilities from 2.83% to 2.01%, which primarily resulted from the decline in market interest rates. This reduction in rates paid decreased interest expense \$41.6 million. Average interest-bearing liabilities also decreased \$598.5 million, which reduced interest expense an additional \$3.9 million.

Provision for Losses on Loans

The provision for losses on loans for the first quarter of 2003 was \$48.6 million, or .88% of average loans on an annualized basis. This compares to \$45.0 million, or .69% of average loans, for the first quarter of 2002. The higher provision for losses on loans in 2003 is attributable to current economic conditions and the resulting increase in net charge-offs. Reference is made to the Allowance for Losses on Loans and Nonperforming Loans discussions for additional information regarding loan charge-offs and other items impacting the provision for losses on loans.

Noninterest Income

Noninterest income for the first quarter of 2003 was \$231.3 million, an increase of \$56.0 million, or 32%, from the first quarter of 2002. The major components of noninterest income are presented on the consolidated statement of

earnings; following is a discussion of the key components:

Service charges on deposit accounts

. These fees were \$57.7 million for the first quarter of 2003, an increase of \$5.4 million compared to the same period in 2002. The increase is primarily attributable to the implementation of *UPExcel* pricing initiatives and increased volume of insufficient fund items.

Mortgage banking revenues.

These revenues increased \$36.8 million to \$86.5 million in the first quarter of 2003 compared to the same period in 2002. Increased mortgage refinancing activity during the first quarter of 2003, driven by the low interest rate environment, resulted in increased gains on mortgage loans sold to the secondary market and miscellaneous fees.

Factoring commissions and fees.

Commissions and fees earned were \$9.9 million for the first quarter of 2003, an increase of 9.7% from the first quarter of last year. These increases are primarily related to an increased volume of factored receivables. Factoring volume was \$934 million for the first quarter of 2003 compared to \$864 million for the same period last year.

Professional employment organization, net revenues

. Net revenues were \$6.4 million for the first quarter of 2003, a 17.2% increase compared to the same period in 2002. The growth in net revenues is principally related to an improvement in the pricing structure for these services.

Bankcard transaction fees.

These fees totaled \$9.7 million for the current quarter compared to \$8.0 million for the same quarter last year. This increase is due to an increase in debit card fees and transaction volume.

Investment securities gains.

Securities gains for the first quarter were \$19.0 million, up \$9.7 million compared to the same period last year. The increase is related to gains on sales of securities partially offset by a \$.4 million impairment expense related to interest only strips arising from the sales and securitizations of mortgage loans, which had an other than temporary decline in value due to increased prepayment speeds on the underlying mortgages.

Financial services.

This category of noninterest income is comprised of trust services fees and commissions, insurance commissions, annuity sales commissions and brokerage fee income. For the first quarter of 2003, these revenues were \$17.7 million, a \$1.8 million decrease from the first quarter of 2002. The decrease was driven by a decrease in the volume of insurance products and, to a lesser extent, a decrease in trust accounts and the average market value of assets under administration and a decrease in volume of trades generating brokerage fee income.

Other noninterest income.

The components of other noninterest income are presented in Note 9 to the unaudited interim consolidated financial statements. Changes in other components include:

- Revenues associated with other real estate, principally gain on sale, were \$1.3 million for the first quarter of 2003, a decrease of \$1.4 million compared to the same period last year. The decrease is attributable to a large gain on sale of ORE recognized in 2002.
- Revenues from Union Planters' Small Business Administration loan trading operations were \$1.1 million for the first quarter of 2003, a decrease of \$.2 million from the first quarter of 2002 due to lower trading volume.

Noninterest Expense

Noninterest expense for the first quarter of 2003 was \$351.5 million, which compares to \$265.9 million for the first

quarter of 2002. The Company's efficiency ratio, which excludes the amortization of all intangibles, for the first quarter of 2003 was 61.28%, compared to 49.80% for the first quarter of 2002. The increase is related to a \$71.5 million impairment of mortgage intangibles discussed under mortgage intangibles expense.

The major components of noninterest expense are presented on the consolidated statement of earnings; following is a discussion of the key components:

Salaries and employee benefits.

These expenses were \$136.9 million for the second quarter of 2003, an increase of \$4.2 million compared to the first quarter of 2002. The increase is primarily due to commissions on increased mortgage revenue slightly offset by a decrease in employees. At March 31, 2003, Union Planters had 10,786 full-time equivalent employees, compared to 11,608 at March 31, 2002.

Occupancy and equipment expense.

Net occupancy and equipment expense was \$45.9 million for the first quarter of 2003, a slight decrease from the first quarter of 2002.

Mortgage intangibles expense.

For the first quarter of 2003, these expenses were \$81.8 million, which included \$71.5 million in impairment of mortgage servicing rights. For the first quarter of 2002 these expenses were \$4.6 million, which included a \$5.2 million recovery of previous impairment of mortgage servicing rights. The increase in impairment expense is a result of declining mortgage interest rates during the first quarter of 2003, which resulted in a reduction in the fair value of mortgage servicing rights. See Note 4 to the unaudited consolidated financial statements for more information.

Other intangibles amortization.

These expenses were \$5.3 million for the first quarter of 2003 and were a slight decrease compared to the first quarter of 2002. Refer to Note 5 to the unaudited interim consolidated financial statements for more information.

Other noninterest expenses.

The components of other noninterest expense are presented in Note 8 to the unaudited interim consolidated financial statements. Changes in other components include:

- For the first quarter of 2003, miscellaneous charge-offs increased \$2.7 million compared to the same period in 2002, primarily driven by an increase in charge-offs related to overdrawn accounts.
- Advertising and promotion expense for the first quarter of 2003 increased \$2.5 million compared to the first quarter of 2002 due to new advertising campaigns launched during the first quarter of 2003.
- Other contracted services increased \$2.0 million for the first quarter of 2003 compared to the first quarter of 2002, primarily due to expenses associated with the restructuring of certain wholly- and majority-owned subsidiaries.
- Consulting fees increased \$1.5 million for the first quarter of 2003 compared to the first quarter of 2002, related to several projects, the largest of which is to improve Union Planters' credit process.

Income Taxes

Applicable income taxes for the three months ended March 31, 2003 were \$8.8 million, resulting in an effective tax rate of 6.19%. Applicable income taxes for the same period in 2002 were \$57.1 million, resulting in an effective tax rate of 30.94%. During the first quarter of 2003, the Company recorded current federal tax benefits of \$25.0 million related to the completion of a transaction designed to raise Tier 1 capital and \$11.0 million related to a reversal of previously established tax liability, which was no longer needed. These two transactions drove the lower effective tax rate. The tax expense applicable to investment securities gains for the three months ended March 31, 2003 and 2002 was \$6.8 million and \$3.6 million, respectively. For the remainder of 2003, the Company anticipates its effective tax rate will be between 30% and 32%. Additionally, the tax consequences of the aforementioned capital-raising transaction were recorded based on enacted tax laws at the time of the transaction. Legislation currently being considered in the U.S. Senate could be enacted that would retroactively reverse the tax benefit of the transaction.

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These are forward-looking statements, and actual results could differ because of several factors, including those identified in this discussion and in the discussion of Cautionary Statements Regarding Forward-Looking Information.

Business Segment Review

Union Planters is managed along traditional and nontraditional banking lines and has two reportable business segments, Banking and Mortgage Banking. For the first quarter of 2003 and 2002, banking accounted for 77% and 82%, respectively, of total revenues (the sum of net interest income and noninterest income.) For the same periods, mortgage banking accounted for 18% and 13% of total revenues, respectively. Reference is made to Note 13 to the unaudited consolidated financial statements for additional information regarding Union Planters' segments.

Banking.

The banking segment consists of traditional deposit taking and lending functions, including consumer, commercial and corporate lending, as well as the origination of mortgage loans both to be retained in the loan portfolio and to be sold into the secondary market; retail banking; online banking and trade-finance activities.

Earnings before income taxes were \$193.0 million for the first quarter of 2003, an increase of \$14.7 million over the first quarter of 2002. This increase is primarily the result of noninterest income, which increased 28% or \$32.1 million over the same period last year, partly offset by decreased net interest income. Continued pressure on the net interest margin from historically low interest rates caused net interest income to decrease \$19.4 million for the first quarter of 2003 compared to the first quarter of 2002. Noninterest income increased due primarily to \$9.2 million in increased investment securities gains; \$12.9 million in gains on sale of mortgages originated by bank branches and \$7.1 million in increased service charges and bankcard transaction fees. Changes to provision for losses on loans and noninterest expense were slight and mostly offsetting.

Mortgage Banking.

Mortgage banking includes the origination, sale and servicing of both fixed and adjustable -rate single family first mortgage loans. While certain mortgage loans are retained in the loan portfolio, mortgage loans originated in the mortgage banking segment are principally sold into the secondary market, with servicing rights typically retained by Union Planters.

During the first quarter of 2003, the mortgage banking segment generated a pre-tax loss of \$28.0 million, compared to a pre-tax profit of \$23.0 million for the first quarter of 2002. The decrease is primarily related to higher noninterest expense, which was partially offset by increased noninterest and net interest income. Noninterest expense increased \$82.5 million primarily due to \$71.5 million in impairment of mortgage servicing rights during the first quarter of 2003 compared to a recovery of \$5.2 million in impairment recorded for the first quarter of 2002. Noninterest income increased \$23.4 million for the first quarter of 2003 compared to the first quarter of 2002, primarily due to \$18.2 million in gains on sales of loans and \$5.2 million in increased servicing and fee income. Net interest income increased due to the increased volume of loans held for resale.

UNION PLANTERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED AVERAGE BALANCE SHEET AND INTEREST RATES

	Three Months Ended March 31,					
	2003			2002		
	Average	Interest	FTE	Average	Interest	FTE
	Balance	Income/ Expense	Yield/ Rate	Balance	Income/ Expense	Yield/ Rate
ASSETS						

(Dollars in thousands)

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Interest-bearing deposits at financial institutions	\$ 186,914	\$ 452	0.98 %	\$ 60,188	\$ 576	3.88 %
Federal funds sold and securities purchased under agreements to resell	49,840	155	1.26	163,739	698	1.73
Trading account assets	250,235	2,287	3.71	229,104	2,278	4.03
Loans held for resale	2,030,213	28,009	5.60	1,417,299	22,526	6.45