UNION PLANTERS CORP
Form 8-K
August 22, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

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

August 22, 2003

Date of Report (Date of earliest event reported)

UNION PLANTERS CORPORATION

(Exact name of registrant as specified in charter)

TENNESSEE	1-10160	62-0859007
(State of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

UNION PLANTERS CORPORATION
6200 POPLAR AVE
MEMPHIS, TENNESSEE 38119

(Address of principal executive offices)

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

Not Applicable

(Former name or former address, if changed since last report)

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Item 5. Other Events

Supplemental financial information.

Union Planters Corporation is refiling its previously filed Management s Discussion and Analysis of Financial Condition and Results of Operations included in Appendix F of Union Planters Corporation s Definitive Proxy Statement for the Annual Shareholders Meeting held April 17, 2003 and incorporated by reference into Part II, Item 2 of Union Planters Corporation s Annual Report on Form 10-K to include disclosures required by Financial Reporting Release No. 65, *Conditions for Use of Non-GAAP Financial Measures*, which was finalized after the date the Definitive Proxy Statement was mailed to the shareholder of Union Planters Corporation.

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APPENDIX F

UNION PLANTERS CORPORATION

2002 ANNUAL FINANCIAL DISCLOSURES

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FINANCIAL HIGHLIGHTS

	Years Ended December 31, 2002	Years Ended December 31, 2001	% Change
	(Dollars in thousands, except per share data)		
Net earnings	$ 528,987	$ 443,550	19.3 %
Per common share:			
Basic	2.61	2.15	21.4
Diluted	2.59	2.13	21.6
Cash dividends	1.33	1.33	
Book value	16.21	15.56	4.2
Return on average assets	1.62%	1.30%	
Return on average common equity	16.55	14.34	
Net interest margin	4.43	4.20	
Net interest spread	3.96	3.53	
Balance sheet data(1)			
Assets	$34,144,363	$33,197,604	2.9 %
Earning assets	31,146,824	30,137,038	3.4
Loans, net of unearned income	22,774,732	23,163,039	(1.7)
Allowance for losses on loans	350,931	341,930	2.6
Deposits	23,330,440	23,430,502	(0.4)
Shareholders equity	3,226,282	3,223,741	0.1
Common shares outstanding (in thousands)	198,434	206,113	(3.7)
Capital ratios(1)			
Shareholders equity to total assets	9.45%	9.71%	
Leverage ratio	7.47	7.56	
Tier 1 capital to risk-weighted assets	9.40	9.75	
Total capital to risk-weighted assets	13.89	14.47	
Credit quality ratios			
Allowance for losses on loans/loans(1)	1.54%	1.48%	
Nonperforming loans/loans(1)	1.16	1.02	
Allowance for losses on loans/nonperforming loans(1)	133	144	
Nonperforming assets/loans and foreclosed properties(1)	1.50	1.31	
Provision for losses on loans/average loans	.86	.55	
Net charge-offs/average loans	.82	.53	

(1) At year-end.

All share and per share amounts throughout this document have been adjusted to reflect the three-for-two stock split completed in the second quarter of 2002.

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UNION PLANTERS CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
	(Dollars in thousands, except per share data)				
Income statement data					
Net interest income	$ 1,289,445	$ 1,275,973	$ 1,231,116	$ 1,256,531	$ 1,207,233
Provision for losses on loans	(197,901)	(131,963)	(77,062)	(74,045)	(204,056)
Investment securities gains (losses)	23,027	9,582	381	2,128	(9,074)
Other noninterest income	763,427	760,089	559,021	510,582	577,833
Noninterest expense	(1,111,087)	(1,238,262)	(1,102,840)	(1,076,364)	(1,200,014)
Earnings before income taxes	766,911	675,419	610,616	618,832	371,922
Income taxes	(237,924)	(231,869)	(201,306)	(208,834)	(146,316)
Net earnings	$ 528,987	$ 443,550	$ 409,310	$ 409,998	$ 225,606
Per common share data					
Net earnings					
Basic	$ 2.61	$ 2.15	$ 2.01	$ 1.92	$ 1.07
Diluted	2.59	2.13	2.00	1.90	1.05
Cash dividends	1.33	1.33	1.33	1.33	1.33
Book value	16.21	15.56	14.35	13.27	13.91
Balance sheet data (at year-end)					
Total assets	$34,144,363	$33,197,604	$34,720,718	$33,280,353	$31,691,953
Loans, net of unearned income	22,774,732	23,163,039	23,957,494	21,446,400	19,576,826
Allowance for losses on loans	350,931	341,930	335,452	342,300	321,476
Available for sale securities	5,467,283	4,780,629	6,843,670	7,472,455	8,301,703
Total deposits	23,330,440	23,430,502	23,113,383	23,372,116	24,896,455
Short-term borrowings(1)	3,637,610	3,076,679	6,086,896	5,422,504	1,648,039
Long-term debt(1)					
Parent company	890,017	878,626	379,303	379,656	378,249
Subsidiary banks	1,897,756	1,858,073	1,559,668	738,114	1,060,483
Total shareholders equity	3,226,282	3,223,741	2,920,054	2,776,109	2,984,078
Average assets	32,617,526	34,209,871	33,882,405	32,902,370	30,744,326
Average shareholders equity	3,203,027	3,100,945	2,807,672	2,980,664	2,931,703
Average shares outstanding (in thousands)					
Basic	201,927	205,543	202,756	212,781	208,551
Diluted	204,609	208,043	204,983	215,975	214,040
Profitability and capital ratios					
Return on average assets	1.62%	1.30%	1.21%	1.25%	.73%
Return on average common equity	16.55	14.34	14.63	13.80	7.71
Net interest margin	4.43	4.20	4.11	4.36	4.40
Net interest spread	3.96	3.53	3.41	3.69	3.60
Loans/deposits (period-end)	97.62	98.86	103.65	91.76	78.63
Common and preferred dividend payout ratio	51.05	61.92	66.62	69.93	113.67
Shareholders equity/total assets (period-end)	9.45	9.71	8.41	8.34	9.42
Average shareholders equity/average total assets	9.82	9.06	8.29	9.06	9.54
Leverage ratio	7.47	7.56	6.53	6.65	8.86

Tier 1 capital/risk-weighted assets	9.40	9.75	8.63	9.50	13.34
Total capital/risk-weighted assets	13.89	14.47	11.47	12.69	16.78
Credit quality ratios(2)					
Allowance for losses on loans/period-end loans	1.54%	1.48%	1.40%	1.60%	1.64%
Nonperforming loans/total loans	1.16	1.02	.58	.64	.84
Allowance for losses on loans/nonperforming loans	133	144	242	251	195
Nonperforming assets/loans and foreclosed properties	1.50	1.31	.76	.81	.98
Provision for losses on loans/average loans	.86	.55	.34	.35	1.00
Net charge-offs/average loans	.82	.53	.36	.46	.91

(1) Reference is made to Note 9 to Union Planters   consolidated financial statements for the components of short and long-term debt.

(2) Exclusive of loans held for resale.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following provides a narrative discussion and analysis of the major trends affecting the results of operations and financial condition of Union Planters Corporation (Union Planters or the Company). This discussion supplements Union Planters consolidated financial statements and accompanying notes, which begin on page F-44 and should be read in conjunction with the consolidated financial statements and the related financial tables beginning on page F-34. Throughout this discussion, certain prior year amounts have been reclassified to conform to the current year presentation.

Key Performance Highlights for 2002

Net earnings for 2002 were $529.0 million, or $2.59 per diluted share, compared to $443.6 million, or $2.13 per diluted share, in 2001.

Net earnings for 2002 represented a return on average assets of 1.62%, a return on average common equity of 16.55% and a return on average tangible common equity of 23.22%.

The net interest margin on a fully taxable-equivalent basis was 4.43% in 2002, compared to 4.20% in 2001 and 4.11% in 2000.

Average loans for 2002 decreased 4.4% to $23.11 billion compared to 2001, and average earning assets decreased to $29.68 billion, a decrease of 4.9%.

Nonperforming assets as a percentage of loans and foreclosed properties increased from 1.31% at December 31, 2001 to 1.50% at December 31, 2002.

Net charge-offs as a percentage of average loans were .82% for 2002 compared to .53% for 2001. The provision for losses on loans as a percentage of average loans was .86% for 2002 compared to .55% for 2001.

Noninterest income increased 2.2% in 2002 compared to 2001.

Noninterest expense decreased $127.2 million, or 10.3%, due in part to newly issued accounting guidance that reduced goodwill amortization by $43.0 million.

The expense and efficiency ratios, as adjusted for amortization of goodwill, mortgage servicing rights and other intangibles, were .81% and 50.02%, respectively, for 2002 compared to 1.08% and 54.65%, respectively, for 2001.

Key capital ratios include a tier-one capital to total risk-weighted assets ratio of 9.40% and a leverage ratio of 7.47% at December 31, 2002 compared to 9.75% and 7.56%, respectively, at December 31, 2001.

Union Planters Overview

Union Planters is headquartered in Memphis, Tennessee and is the largest bank holding company headquartered in Tennessee and is among the 30 largest bank holding companies based in the United States, with $34.14 billion in total assets at December 31, 2002. Union Planters Bank, National Association (Union Planters Bank or UPB), the principal banking subsidiary, was founded in 1869 and operates in 12 states: Alabama, Arkansas, Florida, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas. Union Planters offers a full range of commercial and consumer financial solutions through a network of 762 banking offices, 965 ATMs and the resources of specialized business units and subsidiaries. Trust services include investment management, personal trust services, employee benefit administration and proprietary mutual funds. Investment and insurance services include annuities, brokerage, life insurance, home and auto insurance, commercial property and casualty insurance, crop and hail insurance, environmental insurance and title insurance. Union Planters provides a full range of mortgage products through Union Planters banking centers and a network of mortgage production offices. Capital Factors, Inc. (Capital Factors), based in Boca Raton, Florida, provides receivable-based commercial financing and related fee-based credit, collection and management information services. Capital Factors has regional offices in Atlanta, Georgia; Charlotte, North Carolina; Dallas, Texas; Los Angeles, California; New York, New York; and an office specializing in financing to the rental car industry in San Ramon, California. Strategic Outsourcing, Inc. (SOI), based in Charlotte, North Carolina, provides professional employment services such as payroll administration, tax reporting, compliance, workers compensation, insurance and benefits management.

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, Loans, Allowance for Losses on Loans and Interest Rate Risk. 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, 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 the 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 and the level of the provision for losses on loans; and changes in enacted tax rates 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.

Critical Accounting Policies

The accounting and reporting policies of Union Planters and its subsidiaries conform with accounting principles generally accepted in the United States and general practices within the financial services industry. 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. A summary of Union Planters significant accounting policies is contained in Note 1 to the consolidated financial statements. Union Planters considers its more critical accounting policies to consist of the allowance for losses on loans and the estimation of fair value, which are separately discussed below.

Allowance for Losses on Loans. The allowance for losses on loans represents management s best estimate of inherent losses in the existing loan portfolio. The allowance for losses on loans is increased by the provision for losses on loans charged to expense and reduced by loans charged off, net of recoveries. The provision for losses on loans is determined based on management s assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current and anticipated economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experience, the level of classified and nonperforming loans and the results of regulatory examinations.

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Integral to the methodology for determining the adequacy of the allowance for loan losses is portfolio segmentation and impairment measurement. Under the Company s methodology, loans are first segmented into 1) those comprising large groups of smaller-balance homogeneous loans, including single-family mortgages, that are collectively evaluated for impairment and 2) all other loans that are individually evaluated. Those loans in the second category are further segmented utilizing a defined grading system which involves categorizing loans by severity of risk based on conditions that may affect the ability of borrowers to repay their debt, such as current financial information, collateral valuations, historical payment experience, credit documentation, public information and current trends. The loans subject to credit classification represent the portion of the portfolio subject to the greatest credit risk and where adjustments to the allowance for losses on loans as a result of provisions and charge-offs are most likely to have a significant impact on operations.

A periodic review of selected credits (based on loan size and type) is conducted to identify loans with heightened risk or inherent losses and to assign risk grades. The primary responsibility for this review rests with the management personnel assigned with accountability for the credit relationship. This review is supplemented with periodic reviews by Union Planters credit review function, as well as periodic examination of both selected credits and the credit review process by the applicable regulatory agencies. The information from these reviews assists management in the timely identification of problems and potential problems and provides a basis for deciding whether the credit represents a probable loss or risk that should be recognized.

Loans are considered impaired if, based on current information and events, it is probable that Union Planters will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the collateral for collateral-dependent loans. If the loan is not collateral-dependent, the measurement of impairment is based on the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. In measuring the fair value of the collateral, management uses assumptions (e.g., discount rates) and methodologies (e.g., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties. Impairment identified through this evaluation process is a component of the allowance for loan losses. If a loan that is individually evaluated for impairment is found to have none, it is grouped together with loans having similar characteristics (e.g., the same risk grade), and an allowance for loan losses is maintained at a level approximating average charge-offs for all loans with the same risk grade for the past three years. Management also applies judgment to alter slightly the historical average charge-off rate for developing trends in the economy, in industries and other factors. For portfolio loans that are evaluated for impairment as part of homogenous pools, an allowance is maintained for these loans at a level approximating the average charge-offs for the past three years. Management also applies judgment to alter slightly the historical average charge-off rate for developing trends in the economy and other factors.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the conditions of the various markets in which collateral may be sold may all affect the required level of the allowance for losses on loans and the associated provision for losses on loans.

Estimation of Fair Value. Accounting principles generally accepted in the United States require that certain assets and liabilities be carried on the balance sheet at fair value. Furthermore, the fair value of financial instruments is required to be disclosed as a part of the notes to the consolidated financial statements for other assets and liabilities. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, the shape of yield curves and the credit worthiness of counterparties. Following is a discussion of the estimation of fair value for Union Planters more significant assets and liabilities:

Available for Sale Investment Securities and Trading Account Assets. Fair values for the majority of Union Planters available for sale investment securities are based on quoted market prices. In instances where quoted market prices are not available, fair values are based on the quoted prices of similar instruments with adjustment for relevant distinctions (e.g., size of issue, interest rate, etc.). For trading account assets, fair value is estimated giving consideration to the contractual interest rates, weighted-average maturities and anticipated prepayment speeds of the underlying instruments and market interest rates. The fair values of residual interests in loans securitized or sold are estimated through the use of a model based on prepayment speeds, weighted-average life, expected credit losses and an assumed discount rate.

Loans Held for Resale. Union Planters mortgage banking activities include the origination of mortgage loans for resale in secondary markets. Loans held for resale are carried at fair value on an aggregate basis due to designated hedging relationships. The fair value of loans held for resale is based on anticipated liquidation values which are determined by factors including: the interest rate, size and maturity of the underlying loans and associated investor demand for those loans; anticipated cash flows generated from the loans; the timing of sales; the value of underlying collateral; and the use of a discount rate. Loans held for resale also includes the fair value of certain derivative financial instruments associated with loans held for resale and the mortgage pipeline, which are discussed below. Changes in mortgage interest rates and in market conditions could adversely impact earnings in future periods as a result of valuation adjustments required if the fair value of the portfolio of loans held for resale falls below cost. Union Planters uses derivative financial instruments, as discussed below, to hedge the fair value of its loans held for resale against changes in mortgage interest rates.

Mortgage Servicing Rights. Mortgage servicing rights are stratified based on guarantor, origination period and interest rate of the underlying loans. The fair value of mortgage servicing rights strata is determined by discounted cash flow analysis through the use of a model. In developing estimates of expected future cash flows, management considers the available evidence, including the timing and amount of: prepayments, market discount rates, foreclosure rates, anticipated ancillary income, earnings credit on mortgagors escrow deposits and cost to service. On a periodic basis, this evidence is compared for reasonableness with peer institutions, industry surveys and, where applicable and available, bulk and flow servicing sale transactions.

The most significant assumptions in the determination of fair value are prepayment speeds used in the valuation of each stratum and the discount rate. The model utilized by Union Planters gives consideration to the following attributes affecting the overall prepayment speeds for the underlying portfolio of loans giving rise to the mortgage servicing rights:

Base prepayment speed, which reflects turnover in different housing markets.

Aging, which reflects the time after loan origination that it takes for prepayments to reach their maximum level given constant interest rates.

Points effect, which is based upon the difference between the coupon on the mortgage and prevailing interest rates. This reflects the different characteristics on no-point and low-point loans.

Lagged interest rate effect representing the lag between interest rate changes and prepayment changes.

Burnout arising from some borrowers having a greater propensity to prepay than others. As the fast prepaying borrowers leave a pool, the remaining borrowers are likely to prepay at slower rates.

Seasonality, which is incorporated as a series of monthly adjustments, accounting for the yearly cycle of prepayments.

Home price effect, which occurs when significant home price appreciation leads to an incentive to refinance. A favorable rate environment allows the borrower to access increased equity in their home at a relatively low rate.

Adjustable Rate Mortgage (ARM) to ARM refinancing, representing the incentive to move from one ARM to a lower rate ARM.

ARM to fixed refinancing, representing the incentive to move from an ARM to a fixed-rate mortgage.

Prepayment speeds are adversely impacted by declines in mortgage interest rates. At December 31, 2002, an immediate 50 and 100 basis point decline in mortgage interest rates would have resulted in a decline in the fair value of mortgage servicing rights of $52.0 million and $130.8 million, respectively.

The discount rate represents an adjustment that a potential buyer might demand to compensate for risk inherent in the collection of the future cash flows.

Other Real Estate. The fair values of other real estate are typically determined based on appraisals by independent third parties. The fair value of individual properties is determined by applying one or more of three common valuation approaches (comparable sales, cost or income/discounted cash flows) appropriate in the circumstances. Factors such as interest rates and general economic conditions affect appraised values. Consequently, increases in interest rates and adverse changes in general economic conditions could result in impairment to the value of other real estate