UNION PLANTERS CORP
Form 10-Q
November 14, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

[ ] 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	62-0859007
(State of incorporation)	(IRS Employer Identification No.)

Union Planters Administrative Center
7130 Goodlett Farms Parkway
Memphis, Tennessee 38016
(Address of principal executive offices)

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 [X] No [ ]

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

Class	Outstanding at October 31, 2001
Common stock $5 par value	137,375,559

UNION PLANTERS CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001

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UNION PLANTERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	SEPTEMBER 30
	2001
	(DOLL
ASSETS	
Cash and due from banks	$ 762,923
Interest-bearing deposits at financial institutions	47,293
Federal funds sold and securities purchased under agreements to resell	52,539
Trading account assets	237,292
Loans held for resale	1,226,839
Available for sale securities (Amortized cost: $4,981,800, $7,062,938, and $6,849,457, respectively)	5,123,428
Loans	23,882,954
Less: Unearned income	(21,331)
Allowance for losses on loans	(342,194)
Net loans	23,519,429
Premises and equipment, net	577,608
Accrued interest receivable	266,763
FHA/VA claims receivable	62,281
Mortgage intangibles	162,612
Goodwill	799,001
Other intangibles	155,945
Other assets	392,888
TOTAL ASSETS	$33,386,841
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	
Noninterest-bearing	$ 4,239,866
Certificates of deposit of $100,000 and over	1,817,284
Other interest-bearing	17,441,908
Total deposits	23,499,058
Short-term borrowings	3,224,990
Short- and medium-term senior notes	20,000
Federal Home Loan Bank advances	1,461,530
Other long-term debt	1,275,780
Accrued interest, expenses, and taxes	281,705
Other liabilities	412,947
TOTAL LIABILITIES	30,176,010
Commitments and contingent liabilities (Note 13)	--
Shareholders' equity	
Convertible preferred stock	16,478
Common stock, $5 par value; 300,000,000 shares authorized; 137,357,256 issued and outstanding (134,756,611 at September 30, 2000, and 134,734,841 at December 31, 2000)	686,786
Additional paid-in capital	878,083
Retained earnings	1,553,309
Unearned compensation	(13,472)
Accumulated other comprehensive income--unrealized gain (loss) on available for sale securities, net	89,647

TOTAL SHAREHOLDERS' EQUITY	3,210,831
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$33,386,841

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

UNION PLANTERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		
	2001	2000	
	(DOLLARS IN THOUSANDS, EXCEP		
INTEREST INCOME			
Interest and fees on loans	$ 475,446	$ 525,187	$1
Interest on investment securities			
Taxable	63,511	94,746	
Tax-exempt	14,656	16,026	
Interest on deposits at financial institutions	409	825	
Interest on federal funds sold and securities purchased under agreements to resell	853	1,511	
Interest on trading account assets	3,418	4,266	
Interest on loans held for resale	21,773	6,493	
Total interest income	580,066	649,054	1
INTEREST EXPENSE			
Interest on deposits	184,837	221,519	
Interest on short-term borrowings	30,025	96,860	
Interest on long-term debt	42,526	26,667	
Total interest expense	257,388	345,046	
NET INTEREST INCOME	322,678	304,008	
PROVISION FOR LOSSES ON LOANS	41,933	19,939	
NET INTEREST INCOME AFTER PROVISION FOR LOSSES ON LOANS	280,745	284,069	
NONINTEREST INCOME			
Service charges on deposit accounts	53,694	47,451	
Mortgage banking revenue	51,279	27,823	
Merchant servicing income	10,430	9,320	
Factoring commissions and fees	9,620	9,831	
Trust service income	6,954	6,043	

Profits and commissions from trading activities	1,339	1,598	
Investments and insurance	13,544	11,014	
Investment securities gains	580	--	
Other income	48,901	34,265	
Total noninterest income	196,341	147,345	
NONINTEREST EXPENSE			
Salaries and employee benefits	139,062	133,775	
Net occupancy expense	26,665	23,536	
Equipment expense	22,026	20,904	
Goodwill amortization	12,089	11,700	
Other intangibles amortization	4,240	4,451	
Other expense	103,509	84,704	
Total noninterest expense	307,591	279,070	
EARNINGS BEFORE INCOME TAXES	169,495	152,344	
Applicable income taxes	57,491	50,763	
NET EARNINGS	$ 112,004	$ 101,581	$
NET EARNINGS APPLICABLE TO COMMON SHARES	$ 111,703	$ 101,182	$
EARNINGS PER COMMON SHARE (NOTE 10)			
Basic	$ .81	$ .75	$
Diluted	.81	.75	
AVERAGE COMMON SHARES OUTSTANDING (IN THOUSANDS)			
Basic	137,198	134,678	
Diluted	138,887	136,130	

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

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UNION PLANTERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

	CONVERTIBLE PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNE COMPE
				(DOLLARS IN THOUSANDS)	
BALANCE, JANUARY 1, 2001	$19,691	$673,674	$754,380	$1,493,072	$(1
Comprehensive income					
Net earnings	--	--	--	327,696	

Other comprehensive income, net of taxes:					
Net change in the unrealized gain (loss) on available for sale securities	--	--	--	--	
Total comprehensive income..............					
Cash dividends					
Common stock, $1.50 per share .	--	--	--	(204,568)	
Preferred stock, $1.50 per .... share	--	--	--	(1,066)	
Common stock issued under employee benefit plans, net of stock exchanged	--	1,952	14,189	(3)	
Conversion of preferred stock ...	(3,213)	803	2,410	--	
Common stock purchased and retired	--	(11,500)	(14,370)	(61,822)	
Issuance of stock for acquisitions	--	21,857	121,474	--	
BALANCE, SEPTEMBER 30, 2001	$16,478	$686,786	$878,083	$1,553,309	$(1

	BEFORE TAX AMOUNT
DISCLOSURE OF RECLASSIFICATION AMOUNT:	
Change in the unrealized gain (loss) on available for sale securities arising during the period	$ 156,349
Less: reclassification for gains included in net income	8,934
Net change in the unrealized gain (loss) on available for sale securities	$ 147,415

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

UNION PLANTERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDE SEPTEMBER 30,	
	2001	20

(DOLLARS IN THOUSAN

OPERATING ACTIVITIES		
Net earnings	$ 327,696	$ 3
Reconciliation of net earnings to net cash (used) provided by operating activities:		
Provision for losses on loans, other real estate, and FHA/VA foreclosure claims	99,751	
Depreciation and amortization of premises and equipment	58,582	
Amortization of goodwill and other intangibles	49,152	
Mortgage intangible expense	30,088	
Net amortization (accretion) of investment securities	6,765	
Net realized gains on sales of investment securities	(8,934)	
Gain on sale of loans	(21,555)	
Gain on sale of branches	(20,716)	
Deferred income tax expense	27,094	
(Increase) decrease in assets		
Trading account assets and loans held for resale	(773,146)	1
Other assets	43,179	
Increase in accrued interest, expenses, taxes, and other liabilities	10,100	1
Other, net	3,112	
Net cash (used) provided by operating activities	(168,832)	8
INVESTING ACTIVITIES		
Net decrease in short-term investments	1,751	
Proceeds from sales of available for sale securities	1,115,352	4
Proceeds from maturities, calls, and prepayments of available for sale securities	1,003,418	8
Purchases of available for sale securities	(207,125)	(6
Net decrease (increase) in loans	56,358	(2,8
Net cash received from (paid for) acquired institutions	61,970	(
Proceeds from sale of loans	1,172,601	7
Purchases of premises and equipment, net	(25,300)	(
Net cash provided (used) by investing activities	3,179,025	(1,5
FINANCING ACTIVITIES		
Net decrease in deposits	(189,480)	(2
Net (decrease) increase in short-term borrowings	(2,870,466)	7
Proceeds from long-term debt	1,467,415	6
Repayment of long-term debt	(1,190,820)	(2
Proceeds from issuance of common stock	17,195	
Purchase and retirement of common stock	(87,692)	(1
Net cash paid for sale of branches and related assets and liabilities	(189,908)	
Cash dividends paid	(205,677)	(2
Net cash (used) provided by financing activities	(3,249,433)	4
Net decrease in cash and cash equivalents	(239,240)	(2
Cash and cash equivalents at the beginning of the period	1,054,702	1,1
Cash and cash equivalents at the end of the period	$ 815,462	$ 9

SUPPLEMENTAL DISCLOSURES

Cash paid for

Interest...	$ 965,445	$ 8
Income taxes	131,540	
Unrealized gain (loss) on securities available for sale.............	141,628	(1

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 ACCOUNTING

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, including normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements 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 as noted below. The notes included herein should be read in conjunction with the notes to the consolidated financial statements included in Union Planters Corporation's 2000 Annual Report to Shareholders (2000 Annual Report), a copy of which is Exhibit 13 to Union Planters Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 (2000 10-K). Certain prior year amounts have been reclassified to be consistent with the 2001 financial reporting presentation.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that an entity record all derivatives in the consolidated balance sheet at their fair value. It also requires changes in fair value to be recorded each period in current earnings or other comprehensive income depending upon the purpose for using the derivative and/or its qualification, designation, and effectiveness as a hedging transaction. In June 2000, the FASB amended portions of SFAS No. 133 by issuing SFAS No. 138. The Company adopted these new standards effective January 1, 2001. At adoption, the new accounting standards had an immaterial impact on net income and other comprehensive income. Reference is made to the disclosure in Note 1 to the Quarterly Report on Form 10-Q dated March 31, 2001 for additional information regarding the adoption of SFAS No. 133.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This statement replaces SFAS No. 125, although it retains most of SFAS 125's provisions without modification. SFAS 140 is effective for transfers occurring after March 31, 2001. The Company adopted SFAS No. 140 on April 1, 2001. The adoption had an immaterial impact on the Company's financial condition, results of operations, and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

BUSINESS COMBINATIONS. In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations and supersedes American Institute of Certified Public Accountants Accounting Principles Board Opinion No. 16 (APB No. 16). This Statement changes the accounting for business combinations in APB No. 16 in the following significant respects:

- This Statement requires all business combinations to be accounted for using the purchase method of accounting.

- APB No. 16 requires separate recognition of intangible assets that can be identified and named. This Statement requires that they be recognized as assets apart from goodwill if they meet one of two criteria - the contractual-legal criterion or the separability criterion.

- In addition to the current disclosures in APB No. 16, this Statement requires disclosure of the primary reasons for business combinations and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. If the amounts of goodwill and other intangibles are significant in relation to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class.

The provisions of this Statement apply to business combinations initiated after June 30, 2001. The adoption of this Statement will require changes in the accounting and disclosures related to business combinations, but it is not expected to have a material impact on the Company's financial condition, results of operations, or cash flows.

GOODWILL AND OTHER INTANGIBLE ASSETS. In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired

in a business combination) should be accounted for in financial statements upon their acquisition. The Statement changes the accounting for goodwill and other intangible assets in the following significant respects:

- Acquiring entities usually integrate acquired entities into their operations, and thus the acquirers' expectations of benefits from the resulting synergies usually are reflected in the premium that they pay to acquire those entities. APB No. 17 treated the acquired entity as if it remained a stand-alone entity rather than being integrated with the acquiring entity; as a result, the portion of the premium related to expected synergies (goodwill) was not accounted for appropriately. This Statement adopts a more aggressive view of goodwill and bases the accounting for goodwill on the units of the combined entity into which the acquired entity is integrated.

- APB No. 17 presumed that goodwill and other intangible assets were wasting assets and were amortized over an estimated life. This Statement assumes goodwill and other intangibles assets that have useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling.

- This Statement provides specific guidance for testing goodwill for impairment.

- This Statement provides specific guidance on testing intangible assets that will not be amortized for impairment and thus removes those assets from the scope of other impairment guidance. Intangible assets that are not amortized will be tested for impairment at least annually by comparing the fair value of those assets with their recorded amount.

- This Statement requires disclosure about changes in the carrying amount of goodwill from period to period (in the aggregate and by reportable segment), the carrying amount of intangible assets by major intangible asset class for those subject to amortization and for those not subject to amortization, and the estimated intangible asset amortization for the next five years.

The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001, and must be adopted as of the beginning of a fiscal year. Retroactive application is not permitted. Union Planters will adopt the new Standard on January 1, 2002, and is currently evaluating the potential impact of the Standard on its financial position and results of operation.

NOTE 2. ACQUISITIONS

CONSUMMATED ACQUISITIONS

On February 12, 2001, Union Planters acquired Jefferson Savings Bancorp, Inc. (Jefferson Savings) of Ballwin, Missouri, the parent of Jefferson Heritage Bank, a federal savings bank. Jefferson Savings had total assets of $1.6 billion, total loans of $1.3 billion, and total deposits of $877 million at acquisition. Union Planters exchanged approximately 4.4 million shares of its common stock for all of the outstanding shares of Jefferson Savings. The acquisition was accounted for as a purchase. Goodwill and other intangibles resulting from the acquisition were $46.5 million. Pro forma information has been omitted because the Jefferson Savings acquisition is not considered significant to Union Planters.

Union Planters has announced its intent to repurchase Union Planters' common shares up to the number of shares issued in the transaction. Through September 30, 2001, 2.3 million shares had been purchased and retired.

On March 19, 2001, Union Planters entered into an accelerated share repurchase agreement to purchase one million shares of the Company's common stock. As of June 30, 2001, all of the shares had been purchased and retired at an average cost of $38.05 per share.

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NOTE 3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities are summarized as follows:

SEPTEMBER 30, 2001

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES
		(DOLLARS IN THOUSANDS)	
AVAILABLE FOR SALE SECURITIES			
U.S. Government obligations			
U.S. Treasury	$ 74,755	$ 2,076	$ 12
U.S. Government agencies			
Collateralized mortgage obligations	1,800,648	50,832	4
Mortgage-backed	390,504	12,619	751
Other	392,826	12,858	73
Total U.S. Government obligations	2,658,733	78,385	840
Obligations of states and political subdivisions	1,126,413	42,089	441
Other stocks and securities	1,196,654	29,184	6,749
TOTAL AVAILABLE FOR SALE SECURITIES.	$4,981,800	$ 149,658	$ 8,030

	DECEMBER 31, 2000		
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES
		(DOLLARS IN THOUSANDS)	
AVAILABLE FOR SALE SECURITIES			
U.S. Government obligations			
U.S. Treasury	$ 99,396	$ 691	$ 78
U.S. Government agencies			
Collateralized mortgage obligations	2,271,674	4,561	21,157
Mortgage-backed	484,557	5,391	2,852
Other	835,997	3,795	4,460
Total U.S. Government obligations	3,691,624	14,438	28,547
Obligations of states and political subdivisions	1,208,201	24,355	5,227
Other stocks and securities	1,949,632	8,792	19,598
TOTAL AVAILABLE FOR SALE SECURITIES.	$6,849,457	$ 47,585	$ 53,372

Investment securities having a fair value of approximately $2.5 billion and $3.3 billion at September 30, 2001 and December 31, 2000, respectively, 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 $260.4 million and $230.9 million of FHLB and Federal Reserve Bank stock at September 30, 2001 and December 31, 2000, 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 and nine months ended September 30, 2001 and 2000.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN THOUSANDS)			
Realized gains..........	$ 591	$ 1	$ 11,628	$ 1,697
Realized losses..........	11	1	2,694	1,620

NOTE 4. LOANS

Loans are summarized by type as follows:

	SEPTEMBER 30,		DECEMBER
	2001	2000	2000
	(DOLLARS IN THOUSANDS)		
Commercial, financial, and agricultural....	$ 5,280,743	$ 5,055,383	$ 5,350,
Foreign..................................	407,733	494,441	539,
Accounts receivable - factoring...........	711,156	807,787	677,
Real estate - construction................	2,346,178	1,931,138	2,012,
Real estate - mortgage			
Secured by 1-4 family residential........	5,542,736	6,098,420	6,318,
FHA/VA government-insured/guaranteed.....	177,182	306,421	283,
Other mortgage..........................	5,952,000	5,194,007	5,247,
Home equity.............................	866,709	656,308	685,
Consumer................................	2,492,638	2,828,704	2,756,
Direct lease financing..................	105,879	103,500	110,
TOTAL LOANS....................	$23,882,954	$23,476,109	$23,982,

Nonperforming loans are summarized as follows:

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	
Nonaccrual loans..........................	$ 219,722	$ 133,269
Restructured loans........................	873	1,512
TOTAL NONPERFORMING LOANS........	$ 220,595	$ 134,781

FHA/VA GOVERNMENT-INSURED/GUARANTEED LOANS ON NONACCRUAL STATUS..............	$ 1,985	$ 3,615

SALE OF LOANS

During the third quarter, Union Planters sold fixed-rate residential mortgage loans in securitization transactions and whole-loan sales. In all these transactions, Union Planters retained servicing responsibilities. Union Planters receives annual servicing fees at a percentage of the outstanding balance (.25% to .375%). Union Planters also has rights to future cash flows arising after the investors in the securitization trust have received the return for which they contracted. The investors and the securitization trusts have no recourse to Union Planters' other assets for failure of debtors to pay when due. Union Planters' retained interests are subordinate to investors' interests. Their value is subject to credit, prepayment, and interest-rate risks on the transferred financial assets. In the third quarter, the Company recognized pretax gains of $8.4 million and $2.2 million, respectively, on the securitization of $329.8 million and whole-loan sales of $149.1 million of residential mortgage loans. In the securitization transactions, Union Planters retained an interest of approximately $24 million.

Key economic assumptions used in measuring the retained interests at the date of securitization resulting from securitizations completed during the quarter were as follows:

	RESIDENTIAL MORTGAGE LOANS FIXED-RATE
Prepayment speed.................................	25.0% CPR
Weighted-average life (in years)..................	7.7
Expected credit losses...........................	0.2%
Residual cash flows discounted at.................	15.4

NOTE 5. ALLOWANCE FOR LOSSES ON LOANS

The changes in the allowance for losses on loans for the three and nine months ended September 30, 2001 and 2000 are as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NI
	2001	2000	2001
		(DOLLARS IN THOUSANDS)	
BEGINNING BALANCE.........................	$ 342,868	$ 345,858	$ 335,
Increase due to acquisitions..............	--	--	5,
Decrease due to sale of certain loans......	(675)	(1,875)	(3,
Provision for losses on loans.............	41,933	19,939	96,

Recoveries of loans previously charged off.	29,290	10,345	54,
Loans charged off.........................	(71,222)	(33,814)	(145,
BALANCE, SEPTEMBER 30, 2001...............	$ 342,194	$ 340,453	$ 342,

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:

	SEPTEMBER 30	
	2001	
	(DOLLARS	
Period-end balances:		
Short-term FHLB advances..	$ 400,000	$2
Federal funds purchased...	1,414,345	2
Securities sold under agreements to repurchase..................	1,408,905	1
Other short-term borrowings.......................................	1,740	
Total short-term borrowings.........................	$3,224,990	$5
Federal funds purchased and securities sold under agreements to repurchase		
Year-to-date daily average balance...........................	$3,370,256	$2
Weighted average interest rate...............................	4.43%	
Short-term FHLB advances		
Year-to-date daily average balance...........................	$1,249,817	$2
Weighted average interest rate...............................	5.21%	

SHORT- AND MEDIUM-TERM SENIOR NOTES

The Company's primary banking subsidiary, Union Planters Bank, N.A. (UPB) has a $5 billion senior and subordinated bank note program to supplement UPB's funding sources. Under the program, UPB may from time to time issue senior bank notes having maturities ranging from 30 days to one year from their respective issue dates (Short-Term Senior Notes), senior bank notes having maturities of 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 September 30, 2001, September 30, 2000, and December 31, 2000, UPB had no Subordinated Notes outstanding under this program. At September 30, 2001 and December 31, 2000, UPB had no Short-Term Senior Notes outstanding. A summary of the Short-Term and Medium-Term Senior Notes outstanding follows:

	SHORT-TERM SENIOR NOTES	MEDIUM-TERM	
	SEPTEMBER 30, 2000	SEPTEMBER 30, 2001	SEPTEMBER
		(DOLLARS IN THOUSANDS)	
Period-end balances..........	$ 200,000	$ 20,000	$
Fixed-rate notes.............	200,000	20,000	
Range of maturities..........	10/00	10/01	8/01

FEDERAL HOME LOAN BANK ADVANCES

Certain of Union Planters' banking and thrift subsidiaries have advances from the FHLB under Blanket Agreements for Advances and Security Agreements (the Agreements). These advances have an original maturity of greater than one year. 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 advances outstanding. At September 30, 2001, Union Planters' subsidiaries had an adequate amount of mortgage-backed securities and loans to satisfy the collateral requirements. A summary of the advances is as follows:

	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)		
Balance at period end........	$ 1,461,530	$ 601,291	$ 1,101,619
Range of interest rates......	1.75% - 6.92%	1.75% - 6.61%	1.75% - 6.72%
Range of maturities..........	2001 - 2021	2001 - 2015	2001 - 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 2000 Annual Report for additional information regarding these borrowings.

	SEPTEMBER 30, 2001	
	(DOLLARS	
Corporation-Obligated Mandatorily Redeemable Capital Pass-through Securities of Subsidiary Trust holding solely a Corporation-Guaranteed Related Subordinated Note (Trust Preferred Securities).................................	$ 199,106	$

Variable-rate asset-backed certificates........................	100,000	
7.75% Subordinated Notes due 2011..............................	499,153	
6.75% Subordinated Notes due 2005..............................	99,758	
6.25% Subordinated Notes due 2003..............................	74,391	
6.50% Putable/Callable Subordinated Notes due 2018.............	300,729	
Other long-term debt..	2,643	
TOTAL OTHER LONG-TERM DEBT............................	$ 1,275,780	$

On February 22, 2001, the Company issued $500 million of Subordinated Notes at 99.82%. The notes bear interest at 7.75% and mature March 1, 2011. The notes are unsecured obligations of Union Planters and qualify as Tier 2 capital for regulatory capital purposes. Debt issuance costs of $3.5 million were included in other assets and are being amortized over the term of the notes. The net proceeds are being used for general corporate purposes.

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NOTE 7. SHAREHOLDERS' EQUITY

PREFERRED STOCK

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

	SEPTEMBER	
	2001	
	(DOLLAR	
Preferred stock, without par value, 10,000,000 shares authorized		
Series F Preferred Stock		
300,000 shares authorized, none issued	$ --	$
Series E, 8% Cumulative, Convertible,		
Preferred Stock (stated at liquidation value of $25 per share), 659,104 shares issued and outstanding (797,683 at September 30, 2000 and 787,628 at December 31, 2000)	16,478	
TOTAL PREFERRED STOCK	$ 16,478	$

NOTE 8. OTHER NONINTEREST INCOME AND EXPENSE

	THREE MONTHS ENDED SEPTEMBER 30,		
	2001	2000	
	(DOLLARS IN THOUS		
OTHER NONINTEREST INCOME			
ATM transaction fees.................................	$ 7,592	$ 6,780	$

Letters of credit fees	2,165	2,160	
Net gain on sales of branches/deposits and other assets	18,637	1,235	
Gain on sale of asset-backed loans	--	2,693	
Earnings (losses) of equity method investments	1,122	131	
Reversion of excess assets of a pension plan of an acquired entity	--	--	
Other income	19,385	21,266	
TOTAL OTHER NONINTEREST INCOME	$ 48,901	$ 34,265	$
OTHER NONINTEREST EXPENSE			
Communications	$ 8,954	$ 8,816	$
Other contracted services	8,583	8,283	
Postage and carrier	7,227	6,987	
Stationery and supplies	5,414	6,569	
Merchant servicing expenses	6,781	6,682	
Advertising and promotion	4,970	6,552	
Mortgage intangibles expense	15,653	5,275	
Other personnel services	3,791	3,385	
Legal fees	3,248	3,098	
Travel	2,531	2,905	
Consultant fees	934	1,032	
Federal Reserve fees	1,969	1,876	
Accounting and audit fees	1,659	1,302	
Other real estate expense	1,462	1,344	
Brokerage and clearing fees on trading activities	1,183	1,593	
Taxes other than income	1,837	1,382	
FDIC insurance	1,091	1,185	
Dues, subscriptions, and contributions	2,081	995	
Insurance	902	837	
Provision for losses on FHA/VA foreclosure claims	45	796	
Miscellaneous charge-offs	4,633	3,167	
UPExcel project expense	4,246	--	
Write-off of software and equity investment	3,790	--	
Other expense	10,525	10,643	
TOTAL OTHER NONINTEREST EXPENSE	$ 103,509	$ 84,704	$

NOTE 9. INCOME TAXES

Applicable income taxes for the three and nine months ended September 30, 2001 were $57.5 million and $168.2 million, respectively, resulting in an effective tax rate of 33.92% for both periods. Applicable income taxes for the same periods in 2000 were $50.8 million and $154.1 million, respectively, resulting in effective tax rates of 33.32% and 33.51%, respectively. The increase in the effective

rate in 2001, as compared to 2000, is due primarily to the change in the mix of taxable and nontaxable revenues. The tax expense applicable to investment securities gains for the nine months ended September 30, 2001 and 2000 was $3.3 million and $30,000, respectively.

At September 30, 2001, Union Planters had a net deferred tax asset of $52.3 million compared to $124.5 million at December 31, 2000. The decrease is attributable to the change in the net deferred asset (liability) related to the unrealized gain or loss on available for sale investment securities. Management believes that the deferred tax asset will be fully realized and, therefore, no valuation allowance has been provided.

NOTE 10. EARNINGS PER SHARE

The following table sets forth the computation of basic net earnings per share and diluted net earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONT SEPTEM
	2001	2000	2001
	(DOLLARS IN THOUSANDS, EXCEPT PER S		
BASIC			
Net earnings	$ 112,004	$ 101,581	$ 327,696
Less preferred dividends	301	399	1,066
Net earnings applicable to common shares	$ 111,703	$ 101,182	$ 326,630
Average common shares outstanding	137,198,351	134,678,290	136,931,023
Net earnings per common share-- basic	$ .81	$ .75	$ 2.38
DILUTED			
Net earnings	$ 112,004	$ 101,581	$ 327,696
Average common shares outstanding	137,198,351	134,678,290	136,931,023
Stock option adjustment	825,183	453,102	694,781
Preferred stock adjustment	863,436	998,590	934,659
Average common shares outstanding	138,886,970	136,129,982	138,560,463
Net earnings per common share-- diluted	$ .81	$ .75	$ 2.37

NOTE 11. MORTGAGE LOAN SERVICING

Union Planters was acting as servicing agent for residential mortgage loans totaling approximately $15.2 billion at September 30, 2001 compared to $13.7 billion at December 31, 2000. The 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 for the nine months ended September 30, 2001 and the year ended December 31, 2000.

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	

Beginning balance	$ 123,940	$ 122,110
Additions	68,760	39,314
Sales	--	(17,581)
Amortization of servicing rights	(30,088)	(19,903)
Ending balance	$ 162,612	$ 123,940

The fair value of mortgage servicing rights at September 30, 2001 was $165.5 million. Significant assumptions utilized in determining the fair value were as follows:

Dealer consensus prepayment speeds.........	19.4% CPR
Market discount rate......................	9.9

Both of the significant assumptions above are directly related to and move in concert with 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 interest rates. At September 30, 2001, the reduction in the current fair value of mortgage servicing rights resulting from an immediate 50 and 100 basis point decline in interest rates would be approximately $36.6 million and $65.7 million, respectively.

NOTE 12. LINE OF BUSINESS REPORTING

	THREE MONTHS ENDED SEPTEMBER 30, 2001 (2)				NINE MONTHS ENDE	
	BANKING	OTHER OPERATING UNITS	PARENT COMPANY	CONSOLIDATED TOTAL	BANKING	OTHE OPERAT UNIT
				(DOLLARS IN THOUSANDS)		
Net interest income	$ 294,699	$ 39,076	$ (11,097)	$ 322,678	$ 862,667	$ 111
Provision for losses on loans	(30,666)	(11,267)	--	(41,933)	(79,362)	(16
Noninterest income (1)	131,011	64,696	54	195,761	348,998	190
Noninterest expense ...	(230,220)	(62,002)	(1,733)	(293,955)	(706,664)	(171
Other significant items, net	(11,573)	--	(1,483)	(13,056)	(11,399)	
Earnings before taxes (1)	$ 153,251	$ 30,503	$ (14,259)	$ 169,495	$ 414,240	$ 113
Average assets	$ 30,063,533	$ 3,551,800	$ 182,958	$ 33,798,291	$ 31,403,422	$ 2,951

	THREE MONTHS ENDED SEPTEMBER 30, 2000 (2)				NINE MONTHS ENDE	
	BANKING	OTHER OPERATING UNITS	PARENT COMPANY	CONSOLIDATED TOTAL	BANKING	OTHE OPERAT UNIT
				(DOLLARS IN THOUSANDS)		
Net interest income	$ 278,690	$ 28,324	$ (3,006)	$ 304,008	$ 853,693	$ 85
Provision for losses on loans.......	(15,528)	(4,411)	--	(19,939)	(45,875)	(11
Noninterest income (1)	89,944	51,445	499	141,888	252,425	150
Noninterest expense ...	(218,530)	(47,222)	(1,862)	(267,614)	(671,487)	(137
Other significant items, net	(8,692)	2,693	--	(5,999)	(3,853)	2
Earnings before taxes (1)	$ 125,884	$ 30,829	$ (4,369)	$ 152,344	$ 384,903	$ 89
Average assets	$ 31,719,619	$ 2,347,808	$ 138,536	$ 34,205,963	$ 31,285,965	$ 2,347

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(1) Parent company noninterest income and earnings before income taxes are net of the intercompany dividend eliminations of $4.8 million and $67.6 million for the three months ended September 30, 2001 and 2000, respectively, and $110.2 million and $228.0 million, respectively, for the nine months ended September 30, 2001 and 2000.

(2) The Company implemented a new management reporting system in the first quarter of 2001, including a transfer pricing system for funds used or provided by the various segments. This new system had the effect of changing the amount each segment is charged or credited for funds. Amounts shown for 2000 have been reclassified to reflect this change.

NOTE 13. CONTINGENT LIABILITIES

Union Planters and/or its subsidiaries are parties to various legal proceedings, including an action that was filed on February 20, 2001, which are described in Item 3, Part I of Union Planters' 2000 10-K and in Note 20 to Union Planters' consolidated financial statements on page 67 of the 2000 Annual Report. Various other legal proceedings pending against Union Planters and/or its subsidiaries have arisen in the ordinary course of business.

Based upon present information, including evaluations of certain actions by outside counsel, management is of the opinion that neither Union Planters' financial position, results of operations, nor liquidity will be materially affected by the ultimate resolution of pending or threatened legal proceedings. There were no significant developments during the third quarter of 2001 in any of the pending or threatened legal proceedings that affected such opinion.

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 consolidated financial statements and related financial analysis set forth in Union Planters' 2000 Annual Report, the interim unaudited consolidated financial statements and notes for the nine months ended September 30, 2001 included in Part I hereof, and the supplemental financial data included in this discussion.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). Such statements are based on management's expectations as well as certain assumptions made by, and information available to, management. Specifically, this discussion contains forward-looking statements with respect to the following items:

- timing and effects of projected changes in interest rates
- effects of changes in general economic conditions
- the adequacy of the allowance for losses on loans and the level of future provisions for losses on loans
- projected results of the UPExcel project
- expected trends in nonperforming assets, net charge-offs, and the related risk of losses
- the effect of legal proceedings on Union Planters' financial condition, results of operations, and liquidity
- business plans for the year 2001 and beyond
- anticipated recoveries under insurance policies

When used in this discussion, the words "anticipate," "project," "expect," "believe," "should" and similar expressions are intended to identify forward-looking statements.

These forward-looking statements involve significant risks and uncertainties including changes in general economic and financial market conditions, changes in banking laws and regulations, and Union Planters' ability to execute its business plans. Although Union Planters believes that the expectations reflected in the forward-looking statements are reasonable, actual results could differ materially.

SELECTED FINANCIAL DATA

The following table presents selected financial highlights for the three- and nine-month periods ended September 30, 2001 and 2000:

	THREE MONTHS ENDED SEPTEMBER 30, 2001	THREE MONTHS ENDED SEPTEMBER 30, 2000	PERCENTAGE CHANGE	NINE MONT SEPTEM 2001
	(DOLLARS IN THOUSANDS, EXCEPT PER			
Net earnings	$ 112,004	$ 101,581	10%	$ 327,696
Per share				
Basic	.81	.75	8	2.38
Diluted	.81	.75	8	2.37
Return on average assets	1.31%	1.18%		1.27%
Return on average common equity	14.18	14.67		14.33
Cash operating earnings	$ 133,884	$ 116,476	15	$ 377,246
Per share				
Diluted	.96	.86	12	2.72
Return on average assets	1.57%	1.35%		1.46%
Return on average common equity	16.96	16.83		16.50
Return on average tangible assets	1.62	1.39		1.50
Return on average tangible common equity	24.48	26.15		24.14
Dividends per common share	$ .50	$ .50	--	$ 1.50
Net interest margin (FTE)	4.27%	3.98%		4.14%
Net interest spread (FTE)	3.61	3.25		3.45
Expense ratio	1.20	1.27		1.23
Efficiency ratio	55.03	55.31		55.95
Book value per common share				$ 23.26
Leverage ratio				7.23%
Common share prices				
High closing price	$ 46.94	$ 33.81		$ 46.94
Low closing price	38.63	28.69		34.70
Closing price at quarter-end	42.90	33.06		42.90

Cash operating earnings = Net earnings adjusted for the after-tax impact of goodwill and other intangibles amortization and nonoperating items

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 = Operating net noninterest expense [noninterest expense minus noninterest income, excluding significant nonoperating revenues/expenses, investment securities gains (losses) and goodwill and other intangibles amortization] divided by average assets

Efficiency ratio = Operating noninterest expense (excluding significant nonoperating expenses and goodwill and other intangibles amortization) divided by net interest income (FTE) plus noninterest income, excluding significant nonoperating revenues and investment securities gains (losses)

FTE = Fully taxable-equivalent basis

OPERATING RESULTS -- THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

The following table presents a summary of Union Planters' operating results for the three and nine months ended September 30, 2001 and 2000, identifying significant nonoperating items impacting the results for the periods shown:

UNION PLANTERS CORPORATION
SUMMARY OF CONSOLIDATED RESULTS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE M SEP
	2001	2000	2001
	(DOLLARS IN THOUSAN		
Interest income	$ 580,066	$ 649,054	$1,843,1
Interest expense	(257,388)	(345,046)	(893,3
NET INTEREST INCOME	322,678	304,008	949,8
PROVISION FOR LOSSES ON LOANS	(41,933)	(19,939)	(96,1
NET INTEREST INCOME AFTER PROVISION FOR LOSSES ON LOANS	280,745	284,069	853,7
NONINTEREST INCOME			
Service charges on deposit accounts	53,694	47,451	163,4
Mortgage banking revenue	51,279	27,823	138,6
Merchant servicing income	10,430	9,320	31,3
Factoring commissions and fees	9,620	9,831	28,7
Trust service income	6,954	6,043	21,0
Profits and commissions from trading activities	1,339	1,598	6,2
Investments and insurance	13,544	11,014	37,1
Other income	48,901	28,808	112,8
Total noninterest income	195,761	141,888	539,4
NONINTEREST EXPENSE			
Salaries and employee benefits	133,462	122,319	398,9
Net occupancy expense	26,665	23,536	78,3
Equipment expense	22,026	20,904	66,6
Goodwill amortization	12,089	11,700	36,1
Other intangibles amortization	4,240	4,451	12,9
Other expense	95,473	84,704	291,4
Total noninterest expense	293,955	267,614	884,5
EARNINGS BEFORE NONOPERATING ITEMS AND INCOME TAXES	182,551	158,343	508,6
NONOPERATING ITEMS			
Gain on securitization and sale of loans	--	2,764	
Gain on sale of loans	--	2,693	
Reversion of excess assets of a pension plan of an acquired entity	--	--	
UPExcel project expense	(4,246)	--	(12,2
Severance pay	(5,600)	--	(5,6

Write-off of software and equity investment	(3,790)	--	(3,7
Settlement of executive contractual obligations	--	(11,456)	
Investment securities gains	580	--	8,9
EARNINGS BEFORE INCOME TAXES	169,495	152,344	495,9
Income taxes	(57,491)	(50,763)	(168,2
NET EARNINGS	$ 112,004	$ 101,581	$ 327,6
NET EARNINGS	$ 112,004	$ 101,581	$ 327,6
Nonoperating items, net of taxes	7,977	1,458	7,7
Goodwill and other intangibles amortization, net of taxes ...	13,903	13,437	41,7
CASH OPERATING EARNINGS	$ 133,884	$ 116,476	$ 377,2
PER COMMON SHARE DATA			
Diluted earnings per share	$ .81	$ .75	$ 2.
Diluted cash operating earnings per share	.96	.86	2.

The following table presents the contributions to diluted earnings per common share. A discussion of the operating results follows this table:

UNION PLANTERS CORPORATION
CONTRIBUTIONS TO DILUTED EARNINGS PER COMMON SHARE

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Net interest income-FTE	$ 7.04	$ 7.0
Provision for losses on loans	(.69)	(.4
Net interest income after provision for losses on loans-FTE	6.35	6.5
Noninterest income		
Service charges on deposit accounts	1.18	.9
Mortgage banking revenue	1.00	.5
Merchant servicing income	.23	.2
Factoring commissions and fees	.21	.2
Trust service income	.15	.1
Profits and commissions from trading activities	.04	.0
Investments and insurance	.27	.2
Investment securities gains	.06	-
Other income	.82	.6
TOTAL NONINTEREST INCOME	3.96	3.0

Noninterest expense

Salaries and employee benefits	2.92	2.8
Net occupancy expense	.57	.5
Equipment expense	.48	.4
Goodwill amortization	.26	.2
Other intangibles amortization	.09	.1
Other expense	2.22	1.8
TOTAL NONINTEREST EXPENSE	6.54	6.0
EARNINGS BEFORE INCOME TAXES-FTE	3.77	3.5
Income taxes-FTE	1.40	1.3
DILUTED EARNINGS PER COMMON SHARE	$ 2.37	$ 2.2
Change in net earnings applicable to diluted earnings per share using previous year average shares outstanding		
Change in average shares outstanding		
CHANGE IN NET EARNINGS		
AVERAGE DILUTED SHARES (IN THOUSANDS)	138,560	136,82

FTE = Fully taxable-equivalent basis

THIRD QUARTER EARNINGS OVERVIEW

For the third quarter of 2001, Union Planters reported cash operating earnings, which exclude the after tax impact of nonoperating items and goodwill and other intangibles, of $133.9 million, or $.96 per diluted common share. This compared to cash operating earnings for the same period in 2000 of $116.5 million, or $.86 per diluted common share and $123.1 million, or $.89 per diluted common share for the second quarter of 2001. Cash operating earnings for the third quarter of 2001 resulted in annualized returns on average assets, average common equity, and average tangible common equity of 1.57%, 16.96%, and 24.48%, respectively, which compares to 1.35%, 16.83%, and 26.15%, respectively, for the same period in 2000.

Net earnings were $112.0 million, or $.81 per diluted common share, for the third quarter of 2001, an increase from $101.6 million, or $.75 per diluted common share, for the same period in 2000. These earnings represented annualized returns on average assets and average common equity of 1.31% and 14.18%, respectively, compared to 1.18% and 14.67%, respectively, for the same period in 2000.

Reference is made to the "Summary of Consolidated Results" on page 18 for a comparison of the nonoperating items impacting results for the three and nine months ended September 30, 2001 and 2000.

EARNINGS ANALYSIS

NET INTEREST INCOME

Tax-equivalent net interest income for the third quarter of 2001 was $331.3 million, an increase of $18.5 million over the same quarter last year and a $6.6 million increase over the second quarter of 2001. The components of this change were continued improvement in pricing of loan products and the decline in core funding costs during the third quarter.

The net interest margin for the third quarter of 2001 was 4.27%, which compares to 3.98% and 4.11%, respectively, for the third quarter of 2000 and second quarter of 2001. The interest-rate spread was 3.61% for the third quarter of 2001, an increase from 3.25% for the third quarter of 2000 and 3.42% for the second quarter of 2001.

Reference is made to Union Planters' average balance sheet and analysis of volume and rate changes, which follow this discussion, for additional information regarding the changes in net interest income.

INTEREST INCOME

The following table presents a breakdown of average earning assets:

	THREE MONTHS ENDED			
	SEPTEMBER 30,		JUNE 30,	
	2001	2000	2001	
			(DOLLARS IN BILLIONS	
Average earning assets..........................	$ 30.8	$ 31.2	$ 31.7	$
Comprised of:				
Loans...	82%	76%	81%	
Investment securities.........................	16	23	17	
Other earning assets	2	1	2	
Fully taxable-equivalent yield on average earning assets...	7.58%	8.38%	7.89%	

Taxable-equivalent interest income decreased $69.1 million for the third quarter of 2001 compared to the same period in 2000. This decline was attributable primarily to a decrease in the average yield on earning assets from 8.38% to 7.58%, which reduced interest income by $70.0 million. The decline in yield is attributable primarily to the decreasing interest rate trend. Compared to the second quarter of 2001, interest income decreased $34.6 million, which was attributable primarily to a decline in the average yield on earning assets and a decrease of $890.7 million in earning assets.

For the first nine months of 2001, taxable-equivalent interest income decreased $34.1 million compared to the same period last year. The decrease was driven by a decrease in the average yield on earning assets from 8.29% to 7.93%, which reduced interest income by $107.5 million. Partially offsetting this decrease was a 2.8% increase in average earning assets, primarily loans, which increased interest income $73.4 million.

The decline in interest income during the third quarter of 2001 is the result of declining interest rates during the quarter. While the average yields on earning assets decreased, average rates paid for interest-bearing liabilities also decreased and the overall net interest income improved. Reference is made to the Asset/Liability and Market Risk Management discussions for additional information regarding changes in interest rates and how the Company is positioned to react to the changes.

The percentage of loans to total earning assets has increased over the past several quarters as well as over the prior year. This change in mix is being driven by the growth of loans (see the Loan discussion) and a strategy by management to lower the level of investment securities. During the second quarter, the investment securities portfolio was restructured (see the Investment Securities discussion). A portion of the proceeds from the sale of investment securities was used to reduce short-term debt.

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INTEREST EXPENSE

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

	THREE MONTHS ENDED			
	SEPTEMBER 30,		JUNE 30,	
	2001	2000	2001	
			(DOLLARS IN BILLIONS	
Average interest-bearing liabilities	$ 25.7	$ 26.8	$ 26.8	$
Comprised of:				
Deposits	76%	72%	73%	
Short-term borrowings	13	22	17	
FHLB advances and long-term debt	11	6	10	
Rate paid on average interest-bearing liabilities	3.97%	5.13%	4.47%	

Interest expense decreased $87.7 million in the third quarter of 2001 compared to the same quarter last year. This decrease was driven by a decrease in the average rate paid for interest-bearing liabilities from 5.13% to 3.97%, which resulted from the declining interest-rate environment. This reduction in rates paid decreased interest expense $73.9 million. Average interest-bearing liabilities also decreased $1.1 billion, primarily short-term FHLB advances, which decreased interest expense $13.8 million. Compared to the second quarter of 2001, interest expense decreased $41.2 million due primarily to the decline in interest rates. The average rate paid for interest-bearing liabilities decreased from 4.47% to 3.97%, which reduced interest expense $22.4 million. Also contributing to the decrease was a $1.0 billion reduction in average interest-bearing liabilities, which reduced interest expense $18.8 million. This decrease resulted primarily from a reduction in short-term borrowings.

For the first nine months of 2001, interest expense decreased $53.3 million compared to the same period last year. The decrease was driven by a decrease in the average rate paid on interest-bearing liabilities from 4.81% to

4.48%, which decreased interest expense $73.8 million. The decrease in interest expense was partially offset by an increase in average interest-bearing liabilities of $381.0 million, which increased interest expense $20.5 million.

The decreases in interest rates in 2001 by the Federal Reserve and an additional decrease in the fourth quarter of 2001 are expected to lower Union Planters' borrowing cost. The reduction in short-term borrowings during the third quarter is expected to reduce the Company's exposure to changes in interest rates. Additional rate reductions are not expected to have as significant an impact because the rates paid on certain deposit products do not react as quickly as other instruments, and certain deposit products may reach minimum rate levels. Reference is made to the Asset/Liability and Market Risk Management section for a discussion of the impact of declining interest rates. These are forward-looking statements and actual results could differ due to several factors, including those identified in this discussion and in the discussion of Cautionary Statements Regarding Forward-Looking Information.

PROVISION FOR LOSSES ON LOANS

The provision for losses on loans for the third quarter of 2001 was $41.9 million, or .66% of average loans on an annualized basis. This compares to $28.9 million, or .45% of average loans, for the second quarter of 2001 and $19.9 million, or .34% of average loans, for the third quarter of 2000. The higher provision for losses on loans in the second and third quarters of 2001 is attributable to the growth of loans and the downturn in the economy and the resulting increase in nonperforming loans. Also, a one-time net charge of $8 million related to a fraud associated with a mortgage warehouse line of credit was recorded in the third quarter of 2001. The line of credit has been charged off; however, the fraud is insured, and the Company has made appropriate estimates for recovery under its insurance policy. 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 third quarter of 2001 was $196.3 million, an increase of $9.2 million, or 4.9%, from the second quarter of 2001 and an increase of $49.0 million, or 33.3%, from the third quarter of 2000. Included in noninterest income for the third quarter of 2001 was an investment securities gain of $580,000. For the same period in 2000, noninterest income included $5.5 million resulting from

the sale of loans. Both of these items are considered nonoperating by management. Also included in noninterest income for the third quarter of 2001 was $18.6 million in gains on the sale of branches related to the UPExcel project.

Growth of noninterest income continues to be one of management's priorities. Noninterest income less nonrecurring items, as a percentage of total revenues, increased to 35.4% in the third quarter of 2001, compared to 31.8% for the same quarter last year and 36.1% for the second quarter of 2001. The major components of noninterest income are presented on the consolidated statement of earnings and in Note 8 to the unaudited interim consolidated financial statements. The strong growth in noninterest income is attributable to successful efforts in several areas as outlined below. Additionally, the

Jefferson Savings acquisition in February 2001 and the Strategic Outsourcing, Inc. (SOI) acquisition in April 2000 contributed to the growth year over year.

MORTGAGE BANKING REVENUES. These revenues increased $23.5 million in the third quarter of 2001 compared to the same period in 2000 and increased $5.2 million compared to the second quarter of 2001. For the first nine months of 2001, mortgage banking revenues increased $63.5 million, or 84.4%, to $138.7 million over the same period in 2000. The lower interest-rate environment, which increased mortgage loan production and the level of mortgage refinancing activity, as well as the divestiture of home mortgage loans were the primary contributors to this growth. In the third quarter of 2001, Union Planters securitized or sold $478.9 million of mortgage loans, which resulted in a pretax gain of $10.6 million.

SERVICE CHARGES ON DEPOSIT ACCOUNTS. These fees increased 13.2% to $53.7 million for the third quarter of 2001 compared to the same period in 2000 and decreased $2.6 million compared to the second quarter of 2001. For the nine months ended September 30, 2001, these fees increased $29.3 million, or 21.8%. This increase is attributable to a more consistent administration of competitive pricing and collections on all account relationships across the entire franchise.

SOI NET REVENUES. SOI, which was acquired by Union Planters in April 2000, is one of the largest providers of professional employment services in the United States, which include workers' compensation, employee benefits management, payroll administration, safety and risk management services, human resource administration, and compliance administration. Clients, who are typically small and medium-sized businesses, are provided cost-effective approaches to the management of critical human resource responsibilities and employer risks. Net SOI revenues were $6.2 million for the third quarter of 2001, level with the same period in 2000, and level with the second quarter of 2001. For the first nine months of 2001, net SOI revenues were $18.3 million compared to $7.4 million for the same period in 2000.

MERCHANT SERVICING INCOME. These revenues are primarily from Union Planters' merchant processing, which are earned by the conversion to cash of payments received by merchants from customers using credit cards, debit cards, purchase cards, and private label cards. Merchant servicing income increased $1.1 million to $10.4 million for the third quarter of 2001 as compared to the third quarter last year and decreased $873,000 from the second quarter of 2001. For the nine months ended September 30, 2001 and 2000, these revenues were $31.4 million and $27.1 million, respectively.

INSURANCE AND INVESTMENTS. This category of noninterest income is comprised of insurance commissions, annuity sales commissions, and brokerage fee income. For the third quarter of 2001, these revenues were $13.5 million, an increase of $1.6 million from the second quarter of 2001 and an increase of $2.5 million from the third quarter of 2000. For the nine months ended September 30, 2001, insurance and investments were $37.2 million compared to $37.3 million for the same period in 2000.

OTHER NONINTEREST INCOME. Revenues from Union Planters' Small Business Administration (SBA) trading operations are generated from buying, selling, and securitizing government-guaranteed SBA pools and government-guaranteed portions of SBA loans. These revenues decreased $259,000 to $1.3 million for the third quarter of 2001 compared to the third quarter of 2000. Compared to the second quarter of 2001, these revenues decreased $830,000. For the nine months ended September 30, 2001, SBA trading revenues increased $1.9 million over the same period in 2000.

Union Planters has a limited partnership investment of $10.2 million in VSIBG, a registered broker-dealer whose principal business is the purchase and sale of fixed income securities for institutional clients. Union Planters' share of earnings from this investment increased $1.0 million for the third quarter of 2001 compared to the same period last year and decreased $799,000 compared to the second quarter of 2001. For the nine months ended September 30, 2001, earnings from this investment were $4.4 million, an increase of $4.0 million from the same period a year ago.

NONINTEREST EXPENSE

Noninterest expense for the third quarter of 2001 was $307.6 million, which compares to $279.1 million for the third quarter of 2000 and $309.0 million for the second quarter of 2001. For the nine months ended September 30, 2001, noninterest expense was $906.3 million compared to $826.7 million for the same period in 2000. The Company's efficiency ratio for the third quarter of 2001 was 55.03%, compared to 56.52% for the second quarter of 2001 and 55.31% for the third quarter of 2000.

The Jefferson Savings (February 2001) and SOI (April 2000) acquisitions increased noninterest expense approximately $4.9 million and $20.9 million for the third quarter and the nine months ended September 30, 2001, respectively, compared to the same periods in 2000. Also, during the third quarter of 2001 mortgage production increased as interest rates decreased. The increased production contributed to increased expenses in the mortgage operations of $10.6 million over the second quarter of 2001 and $17.8 million over the third quarter of 2000. The major components of noninterest expense are presented on the consolidated statement of earnings and in Note 8 to the unaudited interim consolidated financial statements. A discussion of the significant expense categories impacting the changes in noninterest expense follows:

SALARIES AND EMPLOYEE BENEFITS. These expenses represent the largest category of noninterest expense and increased $5.3 million for the third quarter of 2001 to $139.1 million when compared to the third quarter of 2000. Compared to the second quarter of 2001, these expenses increased $5.9 million. For the nine months ended September 30, 2001, salaries and employee benefits increased $14.5 million over the same period last year. At September 30, 2001, Union Planters had 12,023 full-time equivalent employees, compared to 12,767 and 12,358, respectively, at September 30, 2000 and June 30, 2001.

The increase in salaries and employee benefit expense was driven partially by the Jefferson Savings and SOI acquisitions. Also contributing to the increase was increased incentive compensation due to higher levels of production, primarily in mortgage operations, as well as severance pay in connection with the UPExcel program.

OCCUPANCY AND EQUIPMENT EXPENSE. Net occupancy and equipment expense was $48.7 million for the third quarter of 2001, an increase of $4.3 million and $254,000, respectively, from the third quarter of 2000 and second quarter of 2001. These expenses increased due to the Jefferson Savings and SOI acquisitions and increased operating costs. For the nine months ended September 30, 2001, these expenses were $145.0 million, an increase of $11.2 million over the same period in 2000.

GOODWILL AND OTHER INTANGIBLES AMORTIZATION. The increase year over year in the amortization of goodwill and other intangibles is attributable to the Jefferson Savings and SOI acquisitions.

MORTGAGE INTANGIBLES EXPENSE. The lower interest-rate environment during the third quarter of 2001 resulted in increased amortization of mortgage servicing rights as well as a valuation allowance. For the third quarter of 2001, these expenses increased $10.4 million compared to the same period in 2000 and $11.5 million compared to the second quarter of 2001. For the nine months ended September 30, 2001, these expenses increased $15.5 million compared to the same period in 2000.

UPEXCEL PROJECT EXPENSE. During the first quarter of 2001, Union Planters began a strategic initiative, UPExcel, to drive significant new business growth and to better control costs. The UPExcel program is a comprehensive "grass roots" self-improvement project that is designed to enhance client service, identify opportunities for new revenue generation and expense savings, and result in a more efficient and more profitable operation. At the end of the second quarter, the project was entering the final planning phase, after which implementation of the various initiatives was begun. Some of the changes resulting from the project are already in place, including a new management structure announced at the end of June as well as providing better customer service. Included in noninterest expense for the third quarter of 2001 are $4.2 million of costs related to this project, which were considered a nonoperating expense item by management. UPExcel is designed to be fully implemented over an 18-month period. 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.

OTHER MISCELLANEOUS EXPENSES. For the third quarter and the nine months ended September 30, 2001, miscellaneous charge-offs increased $1.5 million and $6.8 million, respectively, compared to the same periods in 2000. Compared to the second quarter of 2001, miscellaneous charge-offs decreased $1.5 million.

Provisions for losses on FHA/VA foreclosure claims decreased $751,000 and increased $1.4 million, respectively, for the three and nine months ended September 30, 2001 compared to the same periods in 2000. Compared to the second quarter of 2001, there was a decrease of $2.7 million.

Advertising and promotion expense for the third quarter of 2001 decreased $1.6 million compared to the third quarter of 2000 and decreased $4.3 million compared to the second quarter of 2001. For the nine months ended September 30, 2001, advertising and promotion expenses increased $171,000 compared to the same period in 2000.

Credit-related expenses (expenses related to origination of loan products) increased $5.2 million in the third quarter of 2001 to $7.8 million compared to the third quarter of 2000. This compares to an increase of $2.0 million over the second quarter of 2001. For the nine months ended September 30, 2001, these expenses increased $10.3 million compared to the same period in 2000. The change in credit-related expenses is attributable to the increase in loan production, primarily mortgage loans.

CONSOLIDATED AVERAGE BALANCE SHEET AND INTEREST RATES

	THREE MONTHS ENDED SEPT			
	2001			
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	FTE YIELD/ RATE	AV BA
			(DOLLARS IN THOU	
ASSETS				
Interest-bearing deposits at financial institutions..................................	$ 37,747	$ 409	4.30%	$
Federal funds sold and securities purchased under agreements to resell...............	93,199	853	3.63	
Trading account assets......................	218,298	3,418	6.21	
Investment securities (1) (2)				
Taxable..................................	3,934,180	63,511	6.40	5
Tax-exempt...............................	1,128,421	21,785	7.66	1
Total investment securities.........	5,062,601	85,296	6.68	7
Loans, net of unearned income (1) (3) (4)...	25,386,934	498,669	7.79	23
TOTAL EARNING ASSETS (1) (2) (3) (4)	30,798,779	588,645	7.58	31
Cash and due from banks.....................	731,088			
Premises and equipment......................	587,748			
Allowance for losses on loans...............	(337,339)			
Goodwill and other intangibles..............	960,290			
Other assets............				