

HANCOCK HOLDING COMPANY  
ANNUAL REPORT 2005

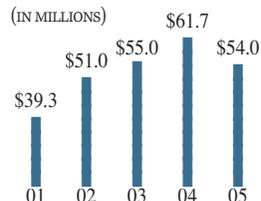


CATALYST FOR  
*R*ENAISSANCE

HANCOCK HOLDING COMPANY & SUBSIDIARIES

# FINANCIAL HIGHLIGHTS

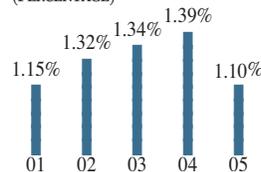
NET EARNINGS  
(IN MILLIONS)



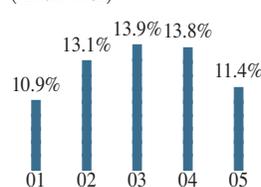
DILUTED EPS COMMON  
(DOLLARS)



RETURN ON ASSETS  
(PERCENTAGE)



RETURN ON EQUITY  
(PERCENTAGE)



(amounts in thousands, except per-share data)

	2005	2004	% Change
<b>Income Data</b>			
Net earnings	\$54,032	\$61,704	-12%
Net interest income (TE)	196,189	176,777	11%
<b>Per Common Share Data</b>			
Net earnings—basic	\$1.67	\$1.91	-13%
Net earnings—diluted	1.64	1.87	-12%
Book value (end of period)	14.78	14.32	3%
Tangible book value (end of period)	12.55	12.16	3%
Cash dividends paid	0.72	0.58	24%
<b>Average Balance Sheet Data</b>			
Securities	\$1,434,415	\$1,345,350	7%
Loans, net of unearned income	2,883,020	2,599,561	11%
Total earning assets	4,455,256	3,979,822	12%
Total assets	4,931,030	4,424,334	11%
Total deposits	4,001,426	3,602,734	11%
Total preferred stockholders' equity	-	2,240	-100%
Total common stockholders' equity	475,701	447,384	6%
<b>Key Ratios</b>			
Return on average assets	1.10%	1.39%	-29
Return on average total equity	11.36%	13.72%	-236
Return on average common equity	11.36%	13.79%	-243
Net interest margin (TE)	4.40%	4.44%	-4
Efficiency ratio (TE)	58.82%	57.33%	149
Allowance for loan losses to period-end loans	2.49%	1.48%	101
Total stockholders' equity to assets	9.65%	9.96%	-31
Leverage ratio	7.85%	8.97%	-112

bp Change

*Honoring  
the bright spirit of all  
who helped Hancock  
weather the storm*



*The refurbished One Hancock Plaza shown in these architectural renderings embodies the region's determined spirit and Hancock's commitment to communities across the Gulf South.*

HANCOCK HOLDING COMPANY  
ANNUAL REPORT 2005

*CATALYST FOR  
RENAISSANCE*

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# Together We Rebuild.



GEORGE A. SCHLOEGEL, VICE CHAIRMAN & CEO; LEO W. SEAL, JR., PRESIDENT; JOSEPH F. BOARDMAN, JR., CHAIRMAN

## 2005 CATALYST FOR CHANGE

BY THE SECOND QUARTER, 2005 HAD EVOLVED AS AN EXCITING YEAR FOR THEN \$4.7 BILLION HANCOCK HOLDING COMPANY. COMPREHENSIVE DEPOSIT AND LOAN GROWTH STRATEGIES, PROGRESSIVE NEW CONSUMER AND BUSINESS BANKING SOLUTIONS, AND EXPERIENCED, HIGHLY TRAINED FINANCIAL PROFESSIONALS POSITIONED HANCOCK FOR CONTINUED SUCCESS THROUGHOUT A VIBRANT FOUR-STATE MARKET. WITH RESURGENCE IN RESIDENTIAL AND COMMERCIAL DEVELOPMENT FROM CENTRAL LOUISIANA TO FLORIDA'S PANHANDLE, THE COMPANY AGAIN ANTICIPATED ITS RESPONSIBILITIES AS A LONGSTANDING PARTNER FOR WELL-PLANNED ECONOMIC GROWTH. ACROSS THE NATION, AMERICA'S INVESTMENT COMMUNITY LAUDED THE POTENTIAL OF HANCOCK HOLDING COMPANY. IN 2005 CHANGE AND OPPORTUNITIES SEEMED INEVITABLE FOR HANCOCK AND MANY OF THE HOMETOWNS ALONG THE INTERSTATE 10 CORRIDOR.

## TO OUR SHAREHOLDERS

By no stretch of the imagination could one have anticipated what the year 2005 would render to the states that border the Gulf of Mexico, for several hurricanes of varying strength visited them.

Regretfully, "Katrina," with its 160 m.p.h. winds and 33-foot tidal surge (the worst hurricane ever to hit the U.S.A.), centered on the Mississippi Coast where your Bank's headquarters and 22 branch offices suffered significant physical damage.

Fortunately, however, though many of our personnel suffered total or considerable loss to their homes, none of our staff, nor any of their families, lost their lives nor suffered personal injury. Immediately after the storm, the Company established an Associate Assistance Foundation to provide our employees disaster assistance relief. We received 136 applications and awarded 135 grants totaling \$221,500 within four months of the storm. The fund will eventually expand to help employees facing other types of emergency situations.



Hurricanes are no strangers to Hancock Bank, for since its beginning in 1899, it has weathered and survived the five most severe storms to hit our area (1906, 1915, 1947, 1969, 2005)—all of which included winds in excess of 115 m.p.h. and tidal surges of at least 15 feet.

Accordingly, we have consistently retained sufficient insurance coverage to adequately cover our losses; hence, Katrina damages were no exception, even as high as they were.

Having experienced the destruction and disruptions that these past catastrophes brought to the citizens, businesses, utilities, and public facilities, your Bank—prior to Katrina's arrival—had dispatched staff members to Chicago, Atlanta, Little Rock, Baton Rouge, Tallahassee, and Hattiesburg to staff our “back-up” centers. Thus, despite very limited electrical power, severely restricted means of communication, travel accessibility, equipment, and building facility damage, and with the help of our very dedicated and loyal staff members, we actually had several branch locations up and running to serve the public within 24 hours after Katrina had vacated the Coast. Hancock was the only bank to provide check cashing and the most essential financial services the public required.



We should report to you that while reconstruction and repair to all our damaged facilities are well underway, it nevertheless will be late summer of 2006 before we have fully completed the undertaking at all locations.

#### RESULTS FOR THE YEAR

Despite the utter devastation and destruction the vast majority of our market and your Bank suffered, we can report several bright spots.

Total deposits were over one billion two hundred forty-seven million dollars (\$1,247,204,000) for the year, and this growth was realized without the benefit of any merger. The loan portfolio increase was nearly a quarter of a billion, tempered by the substantial payoffs of mortgage loans, from the insurance proceeds that customers received, for hurricane losses.

As a direct result of higher operating expenses caused by Katrina, after-tax profits were \$54,032,000, down from \$61,704,000 in 2004.

Your Bank has always enjoyed the reputation of being conservatively run. In keeping with that concept, immediately following the storm, our loan officers and credit department undertook a very detailed review of the loan portfolio to try to determine



on a “worst-case” scenario what losses we might incur. This led to a “Special Loan Loss Reserve” of \$35 million being set up in September.

The \$35 million may prove to be higher than is necessary, since actual losses through the end of the year have not occurred to the degree that was projected. If this trend continues, it is possible that the estimate was too conservative and, if so, part of the reserve may be reversed, which would positively affect total income in 2006 and/or 2007.

Interestingly, market performance of the common stock rose from \$30.00

OUR STOCK LIQUIDITY CONTINUES TO INCREASE AS 105,000 TRADES, TOTALING 22,500,000 SHARES, WERE MADE DURING THE YEAR, PRIMARILY THROUGH THE 12 INVESTMENT BANKING FIRMS THAT ARE “MARKET MAKERS” OF THE COMPANY'S STOCK.

per share in December 2004 to \$37.81 by year-end 2005—an increase of 25 percent. Also, cash dividends were increased by 24 percent, from \$0.58 to \$0.72 per share. This represents the third consecutive year for dividend increases.

Our stock liquidity continues to increase as 105,000 trades, totaling 22,500,000 shares, were made

during the year, primarily through the 12 investment banking firms that are “Market Makers” of the Company’s stock.

### SERVICE & FACILITIES

Our Hancock Insurance Agency subsidiary expanded its ability to market fire, casualty, liability, life, and health insurance policies into Orleans, Jefferson, and the parishes on the north side of Lake Pontchartrain through the merger of the J. Everett Eaves agency, which has served these areas since October 1918. New banking offices were opened in Zachary, Louisiana, and on Cedar Lake Road in north Biloxi, Mississippi, as well as a loan production office in Mobile, Alabama. After 40

investments, estate planning, and other banking services. The Institutional Asset Management division grew to more than \$372 million—up 24 percent. The equity portfolio managed by this unit outperformed industry benchmarks in 2005 and has consistently done so for the past few years. Hancock Horizon Fund, our proprietary mutual fund family, is now approaching \$700 million and continues to be rated highly by several national mutual fund services and publications.

### THE HANCOCK ORGANIZATION

The Bank has 102 bank office locations: 50 in seven southern Mississippi counties; 47 in 11 south central parishes in Louisiana; five in Tallahassee, Florida; with trust offices in Gulfport, Jackson, New Orleans, and Baton Rouge; and a half-dozen Hancock Insurance Agency offices in Mississippi and two in Louisiana. We also operate 35 finance

Both VERIBANC, Inc., and BauerFinancial, Inc.—two of the nation’s most respected independent bank analysis groups—continue to confirm Hancock Bank’s financial strength and soundness. VERIBANC has accorded Hancock Bank coveted “Blue Ribbon” status for 52 consecutive quarters, placing Hancock among the top four percent of all U.S. banks. BauerFinancial granted Hancock Bank a “five-star” superior rating for 10 consecutive years and includes the bank on BauerFinancial’s Recommended Reports. Bank Director magazine, a national publication for financial company directors, announced in fall 2005 that Hancock Bank was number 18 among the nation’s 150 top performing banks.

### LOOKING TO 2006

Management is optimistic that our region will recover and rebuild from the Katrina catastrophe. Tremendous help thus far has come from federal, state, and private enterprise, as well as many cities, churches and charitable organizations across the nation, Canada, and the Czech Republic. We envision that assistance will continue, and with the “iron will” and determination of our people, will bring us back to an even better area for residents, business and industry, amusement, and recreation.

In conclusion, we mourned the loss of Mansel Slaughter, who had served on the Hancock Bank of Louisiana Board of Directors for the last 15 years.

years, our Edgewater Mall branch was closed when mall officials refused to renew our lease to accommodate mall expansion. While hurricane damage has prevented the reopening of several branch offices, we nevertheless have provided temporary services at these locations in both mobile and modular buildings.

Trust department assets administered totaled \$5.5 billion, a 10 percent increase. Its accounts include various types of trusts,

company offices in South Mississippi, Louisiana, Alabama, and West Florida. The company’s personnel count totals about 1,800.

### STRENGTH STABILITY INTEGRITY

Your Board of Directors and Management team remains committed to providing a safe, secure place for our depositors’ money and a loan policy to meet individual and business needs that lead to further economic progress and help in rebuilding from the storm destruction.



*Joseph F. Boardman, Jr.*

JOSEPH F. BOARDMAN, JR.  
CHAIRMAN OF THE BOARD

*George A. Schloegel*

GEORGE A. SCHLOEGEL  
VICE CHAIRMAN & CEO

*Leo W. Seal, Jr.*

LEO W. SEAL, JR.  
PRESIDENT

*Established by Mississippi Governor Haley Barbour and advisory in nature, the Governor's Commission on Recovery, Rebuilding, and Renewal sought to develop a broad vision for a better Gulf Coast and South Mississippi and help local leaders decide for themselves how the region will look in five, 10, and 20 years. The Commission held more than 60 public hearings to address housing, water and sewage, transportation infrastructures, economic development, and damage-prevention measures for future hurricanes.*

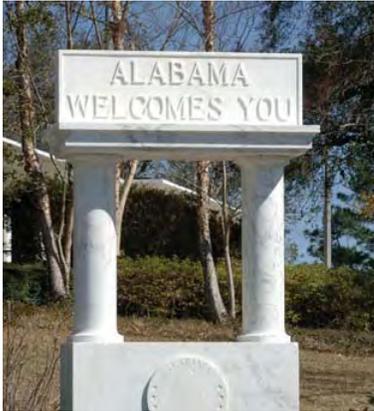


ON AUGUST 29, 2005, IN A 12-HOUR  
ONSLAUGHT OF WIND AND  
UNPRECEDENTED WATER, HURRICANE  
KATRINA CROSSED THE MISSISSIPPI  
GULF COAST (HANCOCK'S CORPORATE  
DOMICILE), WREAKING INCONCEIVABLE  
CHANGE FROM ALABAMA'S COASTLINE  
TO LOUISIANA'S MARSHLAND. WITHIN  
HOURS AFTER THE STORM, SURVIVORS  
INSTINCTIVELY TACKLED THE TASK OF  
RECOVERY; AND HANCOCK BANK  
IMMEDIATELY JOINED AS A LEADER IN  
REBUILDING THE REGION. ONCE AGAIN,  
THE POWERFUL RESILIENCE THAT  
DISTINGUISHES THE PEOPLE AND  
PLACES HANCOCK SERVES PREVAILED  
AGAINST ADVERSITY. ONCE AGAIN,  
HANCOCK BANK EMERGED AS A  
CATALYST FOR WIDESPREAD ECONOMIC  
REGENERATION—A RENAISSANCE OF NEW  
OPPORTUNITIES FOR A BETTER,  
BRIGHTER GULF SOUTH.

**F**ounded 107 years ago on time-honored cornerstones of Strength, Stability, Integrity, and Service, Hancock Holding Company subscribes to a simple business philosophy: incorporate these core values into every facet of the organization. These tenets have sustained Hancock through literal and figurative storms for more than a century and remain the tried-and-true principles that will help secure a shining future for the company and the customers and shareholders who depend on Hancock during prosperity and crises alike.

## STRENGTH IN VALUE

On October 9, 1899, Hancock Bank opened with \$10,000 in capital and an unparalleled commitment to customers. Since then, Hancock Bank has maintained strong capitalization, recorded consistently strong financial performance, and pursued thoughtful, steady growth. Today, with \$6 billion



in assets, Hancock Holding Company credits generations of dedicated associates with upholding the founders' pledge to help communities grow and prosper while preserving shareholder value. In 2005 earnings reports mirrored the company's vision of joining the top quartile of America's strongest, safest financial



Hancock Bank has strategically strengthened accessibility to Hancock's full-service financial choices with convenient new locations in thriving business and residential areas. In 2005 new Hancock Bank financial centers opened in flourishing urban and suburban hubs such as Zachary, Louisiana, on the outskirts of



metropolitan Baton Rouge; the West Bank of greater New Orleans; and on Cedar Lake Road in one of Biloxi, Mississippi's newest residential, educational, and professional districts. A new, relocated east Pascagoula, Mississippi, office near Northrop-Grumman Ship Systems

the company's Panhandle presence to Pensacola. Additionally, in fall 2005, the State of Alabama granted Hancock limited retail banking rights to serve Mississippians displaced by Hurricane Katrina, opening expansion opportunities in Alabama's port city of Mobile and strengthening the potential productivity of an established Hancock commercial financial center in west Mobile.

TODAY, WITH \$6 BILLION IN ASSETS,  
HANCOCK HOLDING COMPANY CREDITS  
GENERATIONS OF DEDICATED ASSOCIATES  
WITH UPHOLDING THE FOUNDERS' PLEDGE  
TO HELP COMMUNITIES GROW AND PROSPER  
WHILE PRESERVING SHAREHOLDER VALUE.

institutions. Stock performance reflected growing interest in Hancock Holding Company as a promising investment. Just two weeks after Katrina, Hancock Holding Company paid previously scheduled dividends to more than 5,500 shareholders.

**STRENGTH IN EXPANSION**

As more families and businesses choose the Gulf South as home,

and ChevronTexaco's Pascagoula refinery will expand the Hancock financial management options available to residents and businesses in Jackson County.

Five Hancock Bank branches in Tallahassee, Florida, shine a beacon of financial services excellence across Florida's Big Bend region, with pending opportunities to backfill

Hancock Bank management is exploring options for an additional metropolitan New Orleans branch to help strengthen rebuilding efforts in the Crescent City. Eighty-eight-year-old J. Everett Eaves—a well-established and highly regarded insurance agency primarily serving greater New Orleans—became a division of 104-year-old Hancock Insurance Agency just weeks before Katrina. That merger further strengthens Hancock's capacity to offer property and casualty insurance at a time when adequate protection becomes a determining factor in restoring neighborhoods and businesses.



## STABILITY FOR OUR CUSTOMERS

Hancock Bank has remained financially sound through the Depression, disaster, wars, and recessions. Company associates' dedication to core values ensure Hancock Bank stands available to help families and businesses achieve financial goals, especially when customers need Hancock's financial guidance the most. In 2005 Hancock's extensive, growing financial services network of 102 full-service financial centers, 125 ATMs, and 24-hour online and telephone banking allowed customers to select financial services channels best suited to increasingly complex lifestyles.

After Katrina, damages totaled approximately \$45 million at 59 of 155 Hancock properties in four states, with 22 of those sites suffering more than 50 percent damage. One hundred ninety South Mississippi Hancock associates lost their homes. More than 400 of Hancock's 1,800-plus associates and their immediate family members suffered significant property damage

or loss. Yet, on August 30, countless associates from storm-ravaged communities and less affected areas joined in opening makeshift branches—in some cases, with flashlights and folding tables—to serve customers and non-customers struggling in a cash based post-storm society.

Hancock was the first bank to reopen temporary mobile banking units in two of the hardest hit towns of Pass Christian and Waveland, Mississippi. As utility companies restored services, technology again afforded customers electronic access to accounts and information. Hancock associates' quick response to customers' immediate needs, even in the toughest of times, once again illustrated the company's time-tested "first-to-open, last-to-close" dedication to its Gulf South market.

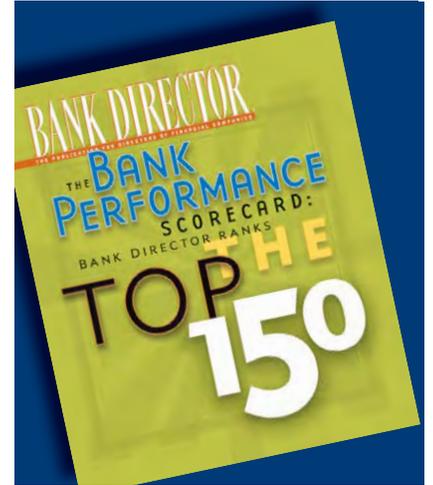
## STABILITY FOR OUR COMMUNITIES

By September 1, 2005, Hancock instigated a "Together We Rebuild" campaign to encourage customers facing the uncertainties of recovery. Equipped with morale-boosting bumper stickers, tee-shirts, and American flags reminiscent of a

Hancock initiative after 1969's Hurricane Camille, Hancock bankers began helping families and businesses regain a collective sense of stability after America's worst natural disaster.

Within weeks, Hancock executives well versed in the successes and challenges of rebuilding after Camille became invaluable resources for Mississippi Governor Haley Barbour as he established the Governor's Commission on Recovery, Rebuilding, and Renewal. Governor Barbour appointed Mississippi Power Company president and Hancock Bank director Anthony Topazi as one of five Commission vice-chairs and named Schloegel and Hancock Bank director Bob Occhi as infrastructure committee chairs.

Hancock management helped Coast leaders lobby the special session of the Mississippi Legislature to allow gaming 800 feet inland from the water's edge—a compromise crucial to rejuvenating and protecting a South Mississippi economic engine that employs 17,000 area residents. Hancock's chief operations officer, John Hairston, remains closely connected to the governor's Congress-endorsed



plan for \$12 billion in Community Block Grants aiding Katrina tidal surge victims who lived above the National Flood Zone. Hancock Bank assistant general counsel Adrian Smith has played an important role in drafting safeguards for accurate distribution of the funds. Countless Hancock associates led rebuilding forums and Charrette meetings to help communities preserve unique heritages while capitalizing on an inevitable boom in commercial and residential redevelopment.

#### STABILITY IN OPERATIONS

Hancock Holding Company's business recovery strategy minimizes business interruption and protects data when catastrophe looms. A strong, stable relationship with a Chicago based data protection company ensures Hancock can back up and secure critical data—including account information, online banking transactions, and teller systems—well before disaster strikes. Additionally, redundant operations centers allow the company to relocate,

coordinate, and process essential business such as cash shipments, loans, and deposits safely and seamlessly off site.

Hancock's Incident Management Team activated the corporate disaster plan three days before Katrina's anticipated landfall along the Gulf Coast and prepared to implement post-storm recovery as necessary. Those standard precautions enabled Hancock to open all Florida locations, most Louisiana offices, and many South Mississippi branches within one day and resume basic computer operations within 48 hours. A

September 26, 2005, BusinessWeek article said it all, "... Hancock Bank had planned for Katrina—and foresees a rebuilding boom."

#### STABILITY IN PERFORMANCE

In 2005 Hancock's investment management process consistently

rated in the top quartile of peers for investment performance, reiterating the exceptional level of financial expertise within Hancock's Gulf South franchise. Hancock Bank trust division assets reached \$5.5 billion in 2005, up \$500 million from the previous year. The Hancock Horizon Fund approached \$700 million at year-

HANCOCK ASSOCIATES' QUICK RESPONSE TO CUSTOMERS' IMMEDIATE NEEDS, EVEN IN THE TOUGHEST OF TIMES, ONCE AGAIN ILLUSTRATED THE COMPANY'S TIME-TESTED "FIRST-TO-OPEN, LAST-TO-CLOSE" DEDICATION TO ITS GULF SOUTH MARKET.

end, a \$140 million increase from 2004; and the Hancock Horizon Value Fund earned Morningstar five-star ratings for three- and five-year performance. Within the Hancock Horizon Fund, the company began offering a new institutional money market fund



that provides an additional choice for institutional clients preferring high-yield, short-term investments.

During and after Katrina, Hancock wealth management administrators and trust operations units provided uninterrupted trust and investment services for customers through its Baton Rouge offices. Hardworking Hancock associates in Gulfport, Jackson, and Baton Rouge ensured a \$5 million bond issue slated for August 31—two days after Katrina—closed on time.

Three days after the hurricane, Hancock bankers in Gulfport, Jackson, and Baton Rouge fulfilled on-time debt service payments of approximately \$49 million to ensure bondholders did not feel the impact of the Gulf Coast disaster. With bond issuances accelerating in Louisiana and Mississippi, clients' confidence in Hancock's service and associates' proficiency led to Hancock's selection as trustee for more than \$200 million in bonds to close in October 2005 alone.

## INTEGRITY

In an age of public skepticism about big business and increasing disclosure requirements, Hancock's century-old tradition of full, forthright communication with its customers and shareholders continues to set Hancock apart as institution deeply rooted in a corporate culture of integrity. Early in 2005, analysts recognized Hancock's potential. By fourth quarter 2005, Bank Director magazine listed Hancock Holding Company among the top-25 of America's Top Performing 150 publicly owned banks. Two of the country's most respected independent bank analysis groups, VERIBANC, Inc., and BauerFinancial, Inc., rate Hancock among America's safest, strongest financial institutions.

When Hurricane Katrina disabled incoming and outgoing communications throughout the storm zone, Hancock management

proactively traveled to analysts and media across the nation to confirm that the bank was open for business and reaffirm that Hancock's financial integrity remained unequivocally sound. Hancock's CEO George Schloegel led future-focused discussions with regional and national media. From CNBC's Squawk Box studios, he reassured concerned investors. CFO Carl Chaney led candid one-on-one meetings and group conferences in financial centers such as Boston and New York to outline management's initial assessments of Katrina's impact on the company and post-storm opportunities for new growth throughout the Gulf South.

## SERVICE

When Hancock Bank first began helping South Mississippians manage turn-of-the-twentieth-century prosperity, bank officers often traveled roads, rails, and waterways to serve customers in growing rural



communities. Today, as Hancock’s corporate footprint reaches some of the Gulf South’s most dynamic metropolitan areas, Hancock associates carry on that community bank commitment backed by the resources of a regional financial services company. Whether traditional branch banking, convenient 24-hour electronic banking, or customized combinations of products and services, Hancock Bank provides the money management options today’s customers need and expect.

literally, had only the clothes on their backs—rallied to open as many Hancock Bank locations as possible in storm affected areas. Bankers and relationship managers crawled through debris to check on customers and understand specific circumstances and needs. For some customers, payroll assistance, check replacements, or cash were crucial. For others, waiving certain charges such as ATM or NSF fees were short-term solutions for post-storm financial survival. In the weeks after Katrina,

Hancock served many non-customers whose financial institutions remain closed and who eventually became Hancock customers. Between August 31 and December 31, 2005, Hancock experienced a 70 percent increase in new account

volume—a record 33,000 new accounts and a tangible testament to Hancock’s commitment to service.

### SERVICE & REBUILDING

Six Hancock Bank Rebuild Loan Centers strategically located across the six-county Gulf Coast region offered South Mississippians a chance to plan recovery efforts with guidance from a full team of Hancock financial services professionals, including small business experts and business banking advisors. Expanded Saturday banking hours and more Saturday banking branches enabled Hancock to assist more customers at the customers’ convenience and laid groundwork for future business. Special certificate of deposit offers allowed customers to enjoy returns on insurance proceeds while deciding their own rebuilding strategies.

In fall 2005 Hancock’s construction lending team anticipated tens of thousands of new structures would soon rise across the Katrina-affected landscape. Rather than designating only a few construction loan specialists, Hancock trained branch managers to assist loan customers—significantly expanding

EXPANDED SATURDAY BANKING HOURS AND MORE SATURDAY BANKING BRANCHES ENABLED HANCOCK TO ASSIST MORE CUSTOMERS AT THE CUSTOMERS’ CONVENIENCE AND LAID GROUNDWORK FOR FUTURE BUSINESS.

### IMMEDIATE SERVICE

In the wake of Hurricane Katrina, Hancock associates—many who,



the company's ability to process more loans for customers ready to rebuild.

As a longtime U.S. Small Business Administration Express Lender, Hancock Bank endorsed SBA's Gulf Opportunity Pilot Loan (GO Loan) Program to simplify traditional business loan approval and provide prompt financing crucial to small business recovery. With SBA expanding its guarantee of loans up to 80 percent, this relationship enabled Hancock to negotiate better terms and expanded collateral guidelines, thereby helping more businesses to reopen sooner.

Additionally, an array of Hancock Bank Bright Business Solutions helped business owners resume business-as-usual and, ultimately, revitalize their local economies. With new businesses came invaluable jobs, much needed supplies, and encouraging progress in the overall recovery.

### EXPANDED SERVICE UNPRECEDENTED GROWTH OPPORTUNITIES

Hancock's corporate team firmly believes that a rebirth of economic vitality will afford Gulf South families and businesses opportunities for financial success, progressive development, and greater quality of life. As that renaissance advances, so does the potential for Hancock to serve more customers in more locations with more innovative products and services.

Many areas experienced phenomenal population growth in late 2005, especially as Hurricane Katrina evacuees chose to settle in their new locations. In Louisiana's capital, Baton Rouge (Hancock Bank of Louisiana's corporate home), the city grew by an estimated 50,000 people. As Baton Rouge and countless other communities address the challenges of changing demographics, Hancock's existing and envisioned infrastructure, skilled financial services teams, and comprehensive financial solutions render the company a star player in the Gulf South financial services arena.

ON OCTOBER 10, HANCOCK BANK BECAME THE FIRST BANK TO REOPEN A FULL-SERVICE FINANCIAL CENTER IN DOWNTOWN GULFPORT IN THE SAME HISTORIC BUILDING HANCOCK ORIGINALLY OCCUPIED FROM 1939 TO 1981.



## *NEW AGE OF LIGHT*

ALTHOUGH HURRICANES KATRINA AND RITA CHANGED THE GULF COAST REGION DRAMATICALLY, LOCAL CITIES AND TOWNS LAUNCHED INCREDIBLE RECOVERY EFFORTS—LITERALLY, AS SOON AS THE WINDS AND WATERS SUBSIDED. THE STRONG SPIRIT OF THE REGION'S PEOPLE REMAINS AN INSPIRATION; THE CARING AND ASSISTANCE FROM COUNTLESS VOLUNTEERS AND ORGANIZATIONS FROM ACROSS AMERICA REMAIN HEARTWARMING. AT HANCOCK BANK, HUNDREDS OF DEDICATED ASSOCIATES WORK TIRELESSLY TO PRESERVE THE STRENGTH, STABILITY, INTEGRITY, AND SERVICE AT THE HEART OF HANCOCK'S CORPORATE VALUES SINCE 1899. THE HANCOCK FAMILY—LOCAL FOLKS MANAGING THE SAME DAY-TO-DAY CHALLENGES CUSTOMERS FACE—WILL CONTINUE TO NURTURE THE HOMETOWN PARTNERSHIPS THAT WILL MAKE A DIFFERENCE IN RESTORING THE GULF SOUTH AS ONE OF AMERICA'S BRIGHTEST DESTINATIONS.

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## HANCOCK HOLDING COMPANY AND SUBSIDIARIES FINANCIAL HIGHLIGHTS

(unaudited, amounts in thousands)	At and For the Years Ended December 31,				
	2005	2004	2003	2002	2001
<b>Period-End Balance Sheet Data:</b>					
Securities	\$1,959,261	\$1,302,369	\$1,278,049	\$1,486,810	\$1,372,794
Short-term investments	410,226	150,261	11,288	47,257	100,433
Loans, net of unearned income	2,989,186	2,748,560	2,448,644	2,104,982	1,890,039
Total earning assets	5,358,673	4,201,191	3,737,981	3,639,049	3,363,266
Allowance for loan losses	74,558	40,682	36,750	34,740	34,417
Total assets	5,950,187	4,664,726	4,150,358	3,973,147	3,679,845
Total deposits	4,989,820	3,797,945	3,447,847	3,301,500	3,039,734
Short-term notes	-	-	9,400	-	-
Long-term notes	50,266	50,273	50,428	51,020	51,606
Total preferred stockholders' equity	-	-	37,067	37,069	37,069
Total common stockholders' equity	477,415	464,582	397,814	387,513	367,548
<b>Average Balance Sheet Data:</b>					
Securities	\$1,434,415	\$1,345,350	\$1,466,156	\$1,493,574	\$1,220,074
Short-term investments	137,821	34,911	57,986	83,427	119,832
Loans, net of unearned income	2,883,020	2,599,561	2,238,245	1,961,299	1,792,559
Total earning assets	4,455,256	3,979,822	3,762,387	3,538,300	3,132,465
Allowance for loan losses	50,107	38,117	35,391	33,135	32,487
Total assets	4,931,030	4,424,334	4,111,949	3,857,698	3,416,044
Total deposits	4,001,426	3,602,734	3,407,205	3,174,946	2,820,351
Short-term notes	3,836	2,311	26	-	-
Long-term notes	50,275	50,312	50,677	51,299	31,569
Total preferred stockholders' equity	-	2,240	37,069	37,069	16,733
Total common stockholders' equity	475,701	447,384	396,034	388,821	359,097
<b>Performance Ratios:</b>					
Return on average assets	1.10%	1.39%	1.34%	1.32%	1.15%
Return on average common equity	11.36%	13.79%	13.88%	13.13%	10.93%
Net interest margin (te)*	4.40%	4.44%	4.45%	4.70%	4.50%
Average loans to average deposits	72.05%	72.16%	65.69%	61.77%	63.56%
Non-interest income excluding storm-related insurance gain, gain on sale of branches and credit card merchant, and securities transactions, as a percent of total revenue (te)	31.86%	33.77%	30.40%	30.11%	27.82%
Non-interest expense as a percent of total revenue (te) before amortization of purchased intangibles, storm-related insurance gain, gains on sale of branches and credit card merchant, and securities transactions	58.82%	57.33%	57.83%	57.83%	59.73%
Allowance for loan losses to period-end loans	2.49%	1.48%	1.50%	1.65%	1.82%
Non-performing assets to loans plus other real estate	0.42%	0.40%	0.73%	0.84%	1.07%
Allowance for loan losses to non-performing loans and accruing loans 90 days past due	195.50%	251.85%	169.73%	143.48%	104.54%
Net charge-offs to average loans	0.30%	0.48%	0.59%	0.91%	0.65%
FTE employees (period end)	1,735	1,767	1,734	1,790	1,736

\*Tax Equivalent (te) amounts are calculated using a marginal federal income tax rate of 35%.

## HANCOCK HOLDING COMPANY AND SUBSIDIARIES

### FINANCIAL HIGHLIGHTS

(unaudited, amounts in thousands)

	At and For the Years Ended December 31,				
	2005	2004	2003	2002	2001
<b>Capital Ratios:</b>					
Average common stockholders' equity to average assets	9.65%	10.11%	9.63%	10.08%	10.51%
Common stockholders' equity to total assets	9.65%	9.96%	9.59%	9.75%	9.99%
Tier 1 leverage	7.85%	8.97%	9.29%	9.19%	8.50%
Tier 1 risk-based	11.47%	12.39%	13.65%	14.88%	14.47%
Total risk-based	12.73%	13.58%	14.88%	16.11%	15.73%
<b>Income Data:</b>					
Interest income	\$263,631	\$226,774	\$218,149	\$230,781	\$234,870
Interest expense	74,819	57,270	57,961	72,053	101,362
Net interest income	188,812	169,504	160,188	158,728	133,508
Net interest income (te)	196,189	176,777	167,358	166,190	140,941
Provision for loan losses	42,635	16,537	15,154	18,495	9,082
Non-interest income excluding net storm-related items, gains on sale of branches and credit card merchant and securities transactions	91,738	84,860	73,089	71,589	54,326
Net storm-related items	6,584	-	-	-	-
Gains/(losses) on sales of securities, net	(53)	163	1,667	4	18
Gains on sales of branches	-	2,258	-	-	-
Gain on sale of credit card merchant services business	-	3,000	-	-	-
Non-interest expense excluding merger-related costs and amortization of intangibles	169,349	153,006	139,060	137,508	116,633
Merger-related costs	-	-	-	-	670
Amortization of intangibles	2,194	1,945	1,148	750	4,349
Earnings before income taxes	72,903	88,297	79,582	73,569	57,118
Net earnings	54,032	61,704	54,955	51,043	39,255
Net earnings available to common stockholders	54,032	61,704	52,302	48,390	37,928
<b>Per Common Share Data:</b>					
Net earnings:					
Basic	\$1.67	\$1.91	\$1.70	\$1.54	\$1.18
Diluted	1.64	1.87	1.64	1.50	1.18
Cash dividends paid	0.72	0.58	0.44	0.40	0.38
Book value	\$14.78	\$14.32	\$13.06	\$12.55	\$11.56
Dividend payout ratio	43.11%	30.37%	25.88%	25.97%	31.78%
Weighted average number of shares outstanding					
Basic	32,365	32,390	30,714	31,486	32,094
Diluted	32,966	33,052	33,410	34,084	33,278
Number of shares outstanding (period end)	32,301	32,440	30,455	30,887	31,786
Market data:					
High closing price	\$39.90	\$34.83	\$29.25	\$25.19	\$14.99
Low closing price	28.25	25.00	21.00	13.78	11.67
Period-end closing price	37.81	33.46	27.29	22.33	14.35
Trading volume	22,404	11,572	11,410	18,812	6,551

## HANCOCK HOLDING COMPANY AND SUBSIDIARIES

### Summary of Quarterly Operating Results (unaudited, in thousands, except per share data)

	2005				2004			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income (te)	\$ 75,433	\$ 67,506	\$ 65,767	\$ 62,302	\$ 61,051	\$ 59,184	\$ 58,115	\$ 55,696
Interest expense	(20,910)	(19,659)	(17,961)	(16,289)	(15,014)	(14,567)	(14,218)	(13,470)
Net interest income (te)	54,523	47,847	47,806	46,013	46,037	44,617	43,897	42,226
Provision for loan losses	(1,079)	(36,905)	(1,891)	(2,760)	(5,796)	(3,388)	(3,817)	(3,536)
Non-interest income	17,298	33,858	24,680	22,433	22,040	20,970	24,630	22,638
Non-interest expense	(44,626)	(42,770)	(42,505)	(41,642)	(37,945)	(38,306)	(39,437)	(39,262)
Taxable equivalent adjustment	(2,004)	(1,862)	(1,740)	(1,771)	(1,861)	(1,760)	(1,797)	(1,854)
Earnings before income taxes	24,112	168	26,350	22,273	22,475	22,133	23,476	20,212
Income taxes	(5,047)	1,267	(8,256)	(6,835)	(6,684)	(6,737)	(7,104)	(6,068)
Net earnings	\$19,065	\$1,435	\$18,094	\$15,438	\$15,791	\$15,396	\$16,372	\$14,144
Net earnings:								
Basic	\$0.59	\$0.04	\$0.56	\$0.48	\$0.49	\$0.47	\$0.50	\$0.44
Diluted	0.58	0.04	0.55	0.47	0.48	0.47	0.50	0.43

### Market Information

The Company's common stock trades on the Nasdaq Stock Market under the symbol "HBHC" and is quoted in publications under "HancHd". The following table sets forth the high and low sale prices of the Company's common stock as reported on the Nasdaq Stock Market. These prices do not reflect retail mark-ups, mark-downs or commissions.

	High Sale	Low Sale	Cash Dividends Paid
<b>2005</b>			
4th quarter	\$39.90	\$31.08	\$0.195
3rd quarter	37.84	29.93	0.195
2nd quarter	34.87	28.25	0.165
1st quarter	34.20	30.25	0.165
<b>2004</b>			
4th quarter	\$34.83	\$30.00	\$0.165
3rd quarter	34.27	27.32	0.165
2nd quarter	32.25	25.00	0.125
1st quarter	32.00	27.08	0.125

There were 5,668 registered holders and approximately 4,500 unregistered holders of common stock of the Company at January 3, 2006 and 32,301,123 shares issued. On January 3, 2006, the high and low sale prices of the Company's common stock as reported on the Nasdaq Stock Market were \$39.11 and \$37.74, respectively. The principal source of funds to the Company to pay cash dividends is the dividends received from Hancock Bank, Gulfport, Mississippi and Hancock Bank of Louisiana, Baton Rouge, Louisiana and Hancock Bank of Florida, Tallahassee, Florida. Consequently, dividends are dependent upon earnings, capital needs, regulatory policies and statutory limitations affecting the banks. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Dividends paid to the Company by Hancock Bank are subject to approval by the Commissioner of Banking and Consumer Finance of the State of Mississippi and those paid by Hancock Bank of Louisiana are subject to approval by the Commissioner for Financial Institutions of the State of Louisiana. Dividends paid by Hancock Bank of Florida are subject to approval by the Florida Department of Financial Services. The Company's management does not expect regulatory restrictions to affect its policy of paying cash dividends. Although no assurance can be given that Hancock Holding Company will continue to declare and pay regular quarterly cash dividends on its common stock, the Company has paid regular cash dividends since 1937.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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The management of Hancock Holding Company has prepared the consolidated financial statements and other information in our Annual Report in accordance with accounting principles generally accepted in the United States of America and is responsible for its accuracy. The financial statements necessarily include amounts that are based on management's best estimates and judgments.

In meeting its responsibility, management relies on internal accounting and related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in the Company's financial records and to safeguard the Company's assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

The Company's management is responsible for establishing and maintaining the adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13(a) – 15(f). Under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management also conducted an assessment of requirements pertaining to Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). This section relates to management's evaluation of internal control over financial reporting including controls over the preparation of the schedules equivalent to the basic financial statements and compliance with laws and regulations. Our evaluation included a review of the documentation of controls, evaluations of the design of the internal control system and tests of the effectiveness of internal controls.

Based on the Company's evaluation under the framework in *Internal Control – Integrated Framework*, management concluded that internal control over financial reporting was effective as of December 31, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by KPMG, LLP, an independent registered public accounting firm, as stated in their report which is contained herein.

George A. Schloegel  
Vice Chairman &  
Chief Executive Officer  
February 23, 2006

Carl J. Chaney  
Executive Vice President &  
Chief Financial Officer  
February 23, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Board of Directors and Stockholders  
Hancock Holding Company:  
Gulfport, Mississippi

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Hancock Holding Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Hancock Holding Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because management's assessment and our audit were conducted to also meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of Hancock Holding Company's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9 C). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that Hancock Holding Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, Hancock Holding Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hancock Holding Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, comprehensive earnings, common stockholders' equity, and cash flows for the years then ended and our report dated February 23, 2006 expressed an unqualified opinion on those financial statements.

KPMG LLP  
Birmingham, Alabama  
February 23, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Board of Directors and Stockholders  
Hancock Holding Company  
Gulfport, Mississippi

We have audited the accompanying consolidated balance sheets of Hancock Holding Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, comprehensive earnings, common stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying consolidated statements of earnings, comprehensive earnings, common stockholders' equity and cash flows of Hancock Holding Company and subsidiaries for the year ended December 31, 2003, were audited by other auditors, whose report thereon dated January 19, 2004 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hancock Holding Company and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hancock Holding Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP  
Birmingham, Alabama  
February 23, 2006

**HANCOCK HOLDING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share and per share data)

	December 31,	
	2005	2004
<b>Assets:</b>		
Cash and due from banks (non-interest bearing)	\$ 271,104	\$ 155,797
Interest-bearing deposits with other banks	7,258	8,126
Federal funds sold	402,968	142,135
Securities available for sale, at fair value (amortized cost of \$1,980,745 and \$1,118,622)	1,959,261	1,114,468
Securities held to maturity, at amortized cost (fair value of \$0 and \$193,578)	-	187,901
Loans	3,000,618	2,760,266
Less:		
Allowance for loan losses	(74,558)	(40,682)
Unearned income	(11,432)	(11,706)
Loans, net	2,914,628	2,707,878
Property and equipment, net	79,386	79,848
Other real estate, net	1,833	3,007
Accrued interest receivable	35,046	23,783
Goodwill	61,418	55,409
Other intangible assets, net	10,781	14,783
Life insurance contracts	83,080	79,630
Reinsurance receivables	49,452	56,756
Deferred tax asset, net	40,380	15,621
Other assets	33,592	19,584
<b>Total Assets</b>	<b>\$ 5,950,187</b>	<b>\$ 4,664,726</b>
<b>Liabilities and Common Stockholders' Equity:</b>		
Deposits:		
Non-interest bearing demand	\$ 1,324,938	\$ 697,353
Interest-bearing savings, NOW, money market and time	3,664,882	3,100,592
Total deposits	4,989,820	3,797,945
Federal funds purchased	1,475	800
Securities sold under agreements to repurchase	250,807	195,478
Long-term notes	50,266	50,273
Policy reserves and liabilities	105,368	111,107
Other liabilities	75,036	44,541
<b>Total Liabilities</b>	<b>5,472,772</b>	<b>4,200,144</b>
Commitments and contingencies (notes 18 and 19)		
<b>Common Stockholders' Equity:</b>		
Common stock - \$3.33 par value per share; 75,000,000 shares authorized, 32,301,123 and 32,439,702 shares issued, respectively	107,563	108,024
Capital surplus	129,222	134,905
Retained earnings	265,039	234,423
Accumulated other comprehensive loss, net	(22,066)	(11,121)
Unearned compensation	(2,343)	(1,649)
<b>Total Common Stockholders' Equity</b>	<b>477,415</b>	<b>464,582</b>
<b>Total Liabilities and Common Stockholders' Equity</b>	<b>\$ 5,950,187</b>	<b>\$ 4,664,726</b>

See notes to consolidated financial statements.

**HANCOCK HOLDING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

(amounts in thousands, except per share data)

	Years Ended December 31,		
	2005	2004	2003
<b>Interest Income:</b>			
Loans, including fees	\$ 197,857	\$ 169,750	\$ 159,367
Securities-taxable	51,360	46,672	48,226
Securities-tax exempt	7,034	7,719	8,705
Federal funds sold	4,447	297	532
Other investments	2,933	2,336	1,319
Total interest income	<u>263,631</u>	<u>226,774</u>	<u>218,149</u>
<b>Interest Expense:</b>			
Deposits	67,581	52,570	54,191
Federal funds purchased and securities sold under agreements to repurchase	4,687	2,141	1,509
Long-term notes and other interest expense	2,551	2,559	2,261
Total interest expense	<u>74,819</u>	<u>57,270</u>	<u>57,961</u>
<b>Net Interest Income</b>	188,812	169,504	160,188
Provision for loan losses	42,635	16,537	15,154
Net interest income after provision for loan losses	<u>146,177</u>	<u>152,967</u>	<u>145,034</u>
<b>Non-Interest Income:</b>			
Service charges on deposit accounts	34,773	43,631	42,544
Trust fees	11,107	9,030	7,724
Insurance commissions and fees	17,099	9,193	2,750
Investment and annuity fees	5,076	2,295	3,615
Debit card and merchant fees	4,878	4,271	3,643
ATM fees	4,202	4,512	3,994
Secondary mortgage market operations	2,221	2,934	1,728
Securities gains (loss), net	(53)	163	1,667
Gains on sales of branches and credit card merchant services business	-	5,258	-
Net storm-related items	6,584	-	-
Other income	12,382	8,994	7,091
Total non-interest income	<u>98,269</u>	<u>90,281</u>	<u>74,756</u>
<b>Non-Interest Expense:</b>			
Salaries and employee benefits	94,158	86,404	81,409
Net occupancy expense of premises	10,926	9,915	9,286
Equipment rentals, depreciation and maintenance	9,553	9,669	9,097
Amortization of intangibles	2,194	1,945	1,148
Other expense	54,712	47,018	39,268
Total non-interest expense	<u>171,543</u>	<u>154,951</u>	<u>140,208</u>
<b>Earnings Before Income Taxes</b>	72,903	88,297	79,582
Income taxes	18,871	26,593	24,627
<b>Net Earnings</b>	<u>54,032</u>	<u>61,704</u>	<u>54,955</u>
Preferred dividends	-	-	2,653
<b>Net Earnings Available to Common Stockholders</b>	<u>\$ 54,032</u>	<u>\$ 61,704</u>	<u>\$ 52,302</u>
Basic earnings per common share	<u>\$ 1.67</u>	<u>\$ 1.91</u>	<u>\$ 1.70</u>
Diluted earnings per common share	<u>\$ 1.64</u>	<u>\$ 1.87</u>	<u>\$ 1.64</u>

See notes to consolidated financial statements.

## HANCOCK HOLDING COMPANY AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

(amounts in thousands, except share and per share data)

	Common Stock		Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss), net	Unearned Compensation
	Shares	Amount				
<b>Balance, January 1, 2003</b>	30,886,865	\$ 102,853	\$ 122,215	\$ 152,948	\$ 10,049	\$ (552)
Net earnings				54,955		
Cash dividends - \$0.44 per common share				(13,554)		
Cash dividends - \$1.60 per preferred share				(2,653)		
Minimum pension liability adjustment, net					(1,574)	
Change in fair value of securities available for sale, net					(14,779)	
Restricted stock awards granted			969			(969)
Restricted stock awards vested	38,810	129				
Restricted stock awards forfeited			(8)			8
Restricted stock amortization						556
Repurchase/retirement of common stock	(572,362)	(1,906)	(12,024)			
Transactions relating to options exercised, net	88,716	296	1,006			
Other stock transactions, net	13,329	44	(195)			
<b>Balance, December 31, 2003</b>	<u>30,455,358</u>	<u>101,416</u>	<u>111,963</u>	<u>191,696</u>	<u>(6,304)</u>	<u>(957)</u>
Net earnings				61,704		
Cash dividends - \$0.58 per common share				(18,977)		
Preferred stock conversion	2,200,976	7,329	29,886			
Minimum pension liability adjustment, net					(442)	
Change in fair value of securities available for sale, net					(4,375)	
Restricted stock awards granted			1,387			(1,387)
Restricted stock awards vested	4,875	16				
Restricted stock awards forfeited			(16)			16
Restricted stock amortization						679
Repurchase/retirement of common stock	(370,793)	(1,235)	(9,733)			
Transactions relating to options exercised, net	137,200	457	1,373			
Other stock transactions, net	12,086	41	45			
<b>Balance, December 31, 2004</b>	<u>32,439,702</u>	<u>108,024</u>	<u>134,905</u>	<u>234,423</u>	<u>(11,121)</u>	<u>(1,649)</u>
Net earnings				54,032		
Cash dividends - \$0.72 per common share				(23,416)		
Minimum pension liability adjustment, net					38	
Change in fair value of securities available for sale, net					(10,983)	
Restricted stock awards granted			1,490			(1,490)
Restricted stock awards vested	37,426	125				
Restricted stock awards forfeited			(65)			65
Restricted stock amortization						731
Repurchase/retirement of common stock	(295,849)	(985)	(8,564)			
Transactions relating to options exercised, net	105,258	350	863			
Other stock transactions, net	14,586	49	593			
<b>Balance, December 31, 2005</b>	<u>32,301,123</u>	<u>\$ 107,563</u>	<u>\$ 129,222</u>	<u>\$ 265,039</u>	<u>\$ (22,066)</u>	<u>\$ (2,343)</u>

See notes to consolidated financial statements.

**HANCOCK HOLDING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**

(amounts in thousands)

	Years Ended December 31,		
	2005	2004	2003
Net earnings	\$ 54,032	\$ 61,704	\$ 54,955
Other comprehensive earnings, (net of income tax):			
Minimum pension liability adjustment, net of tax of \$24, \$142 and \$965, respectively	38	(442)	(1,574)
Change in fair value of securities available for sale, net:			
Change in fair value, net of tax of \$6,347, \$2,526 and \$7,384, respectively	(10,987)	(4,269)	(13,695)
Reclassification adjustments for (losses) gains included in net earnings, net of tax (benefit) expense of \$(49), \$72 and \$574, respectively	4	(106)	(1,084)
Total other comprehensive (loss) earnings	(10,945)	(4,817)	(16,353)
<b>Total Comprehensive Earnings</b>	<b>\$ 43,087</b>	<b>\$ 56,887</b>	<b>\$ 38,602</b>

See notes to consolidated financial statements.

**HANCOCK HOLDING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(amounts in thousands)

	Years Ended December 31,		
	2005	2004	2003
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 54,032	\$ 61,704	\$ 54,955
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of software	8,717	9,157	9,882
Provision for loan losses	42,635	16,537	15,154
Deferred tax (benefit) provision	(18,401)	(3,529)	150
Provision for losses on other real estate owned	-	142	1,068
Increase in cash surrender value of life insurance contracts	(3,450)	(3,465)	(1,165)
Loss (gains) on sales of securities available for sale, net	53	(163)	(1,667)
Gain on sale of other real estate owned, net	(444)	-	-
Gains on sales of branches and credit card merchant service business	-	(5,258)	-
Gain on involuntary conversion of assets, net	(14,135)	-	-
(Accretion) amortization of securities premium/discount	(1,849)	5,550	11,366
Amortization of intangible assets	2,194	1,945	1,148
Amortization of compensation element of restricted stock	731	679	556
Pension expense	3,163	3,186	2,969
(Increase) decrease in accrued interest receivable	(11,263)	(445)	2,355
Increase in accrued expenses	28,349	1,025	5,995
Increase (decrease) in other liabilities	1,625	6,089	(2,765)
Increase (decrease) in interest payable	521	513	(1,303)
Increase (decrease) in unearned premiums	(5,739)	90,315	20,792
Decrease (increase) in reinsurance receivables	9,738	(42,893)	(13,863)
Pension plan contributions	(3,119)	(3,032)	(2,957)
(Increase) decrease in other assets, net	(26,154)	15,214	(17,002)
Other, net	3,292	(88)	1,168
Net cash provided by operating activities	<u>70,496</u>	<u>153,183</u>	<u>86,836</u>

See notes to consolidated financial statements

**HANCOCK HOLDING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(amounts in thousands)

	Years Ended December 31,		
	2005	2004	2003
<b>Cash Flows from Investing Activities:</b>			
Net (increase) decrease in interest-bearing time deposits	868	(2,572)	(1,286)
Proceeds from maturities, calls or prepayments of securities held to maturit	195,599	27,890	67,780
Purchases of securities held to maturity	(7,736)	(54,216)	-
Proceeds from sales and maturities of securities available for sale	511,905	706,237	1,353,722
Purchases of securities available for sale	(1,354,864)	(714,750)	(1,245,149)
Net (increase) decrease in federal funds sold	(260,833)	(122,903)	37,255
Net increase in loans	(248,056)	(295,410)	(381,565)
Net (increase) decrease in loans held for sale	(6,735)	(2,469)	17,932
Purchase of property, equipment and software, net	(14,765)	(9,223)	(8,338)
Leasehold improvements	(130)	(27)	(829)
Proceeds from sales of other real estate	4,338	6,981	4,911
Proceeds from insurance settlements	12,562	-	-
Proceeds from sale of credit card merchant services business	-	3,000	-
Premiums paid on life insurance contracts	-	(25,000)	(50,000)
Net cash paid in connection with sale of branches	-	(22,999)	-
Net cash (paid) received in business combinations	(3,922)	(6,378)	32,769
Net cash used by investing activities	<u>(1,171,769)</u>	<u>(511,839)</u>	<u>(172,798)</u>
<b>Cash Flows from Financing Activities:</b>			
Net increase in deposits	1,191,875	327,788	107,106
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	56,004	46,182	(10,962)
(Repayments) advances of short-term notes	-	(9,400)	9,400
Repayments of long-term notes	(7)	(155)	(592)
Dividends paid	(23,416)	(18,977)	(16,207)
Conversion of preferred stock to cash	-	(148)	-
Proceeds from exercise of stock options	1,213	1,830	1,301
Repurchase/retirement of common stock	(9,549)	(10,968)	(13,930)
Other stock transactions, net	460	219	142
Net cash provided by financing activities	<u>1,216,580</u>	<u>336,371</u>	<u>76,258</u>
Net (decrease) increase in cash and due from banks	115,307	(22,285)	(9,704)
Cash and due from banks, beginning	155,797	178,082	187,786
Cash and due from banks, ending	<u>\$ 271,104</u>	<u>\$ 155,797</u>	<u>\$ 178,082</u>

See notes to consolidated financial statements

## HANCOCK HOLDING COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business

Hancock Holding Company (the Company) is a financial holding company headquartered in Gulfport, Mississippi operating in the states of Mississippi, Louisiana, Alabama and Florida. Hancock Holding Company, the Parent Company operates through three wholly-owned bank subsidiaries, Hancock Bank, Gulfport, Mississippi, Hancock Bank of Louisiana, Baton Rouge, Louisiana and Hancock Bank of Florida, Tallahassee, Florida (the Banks). The Banks are community oriented and focus primarily on offering commercial, consumer and mortgage loans and deposit services to individuals and small to middle market businesses in their respective market areas. The Company's operating strategy is to provide its customers with the financial sophistication and breadth of products of a regional bank, while successfully retaining the local appeal and level of service of a community bank.

#### Summary of Significant Accounting Policies

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a summary of the more significant of those policies.

**Consolidation** - The consolidated financial statements of the Company include the accounts of the Company, the Banks, Hancock Mortgage Corporation, Inc., Hancock Investment Services, Inc., Hancock Insurance Agency, Inc., Harrison Finance Company, Magna Insurance Company and subsidiary, as well as three real estate corporations owning land and buildings that house bank branches and other facilities. Significant intercompany transactions and balances have been eliminated in consolidation.

**Comprehensive Income** - Comprehensive income includes net earnings and other comprehensive income which, in the case of the Company, includes unrealized gains and losses on securities available for sale and a minimum pension liability.

**Use of Estimates** - In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. The determination of the allowance for loan losses is a material estimate that is particularly subject to significant change.

**Statement of Cash Flows** - Cash and cash equivalents are defined as only cash on hand and balances due from financial institutions. Supplemental information to the statements of cash flows include income taxes paid of \$12.5 million, \$26.7 million and \$22.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. Interest paid for the years ended December 2005, 2004 and 2003 was \$74.3 million, \$56.8 million and \$59.3 million, respectively. Supplemental information of non-cash investing and financing activities include transfers from loans to other real estate and financed sales of foreclosed property. Transfers from loans to other real estate amounted to \$2.7 million, \$4.7 million and \$7.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. Financed sale of foreclosed property amounted to \$1.3 million, \$1.2 million and \$3.3 million for the years ended December 31, 2005, 2004 and 2003, respectively.

**Securities** - Securities have been classified into one of two categories: available for sale or held to maturity. Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates this classification periodically. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities not classified as held to maturity are classified as available for sale.

Held to maturity securities are stated at amortized cost. Available for sale securities are stated at fair value with unrealized gains and losses, net of income taxes, reported as a separate component of stockholders' equity until realized.

The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts to maturity or option date or, in the case of mortgage-backed securities, over the estimated life of the security using the constant-yield method. The pre-payment speed chosen to determine the estimated life of a mortgage-backed security is the security's historical 3-month pre-payment speed. When pre-payment speeds are faster than expected, the average life of the mortgage-backed security is shorter than the original estimate. Amortization, accretion and accrued interest are included in interest income on securities. Realized gains and losses, and declines in value judged to be other than temporary, are included in net securities gains and losses. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. Using this basis results in the most accurate reporting of gains and losses realized on these sales, as well as the appropriate adjustment to Accumulated Other Comprehensive Income. A decline in the fair value of securities below cost that is deemed to be other than temporary results in a charge to earnings and the establishment of a new cost basis for the security.

During 2005, securities classified as held to maturity in the portfolio of one of the Company's subsidiaries were sold. A determination was made that this action tainted the investment portfolio of the entire Company. As a result of this action and determination, all securities held by the Company have been reclassified to available for sale and the carrying value of those

securities are adjusted to fair value as prescribed in Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

**Derivative Instruments** – The Company does not apply for hedge accounting treatment under the guidelines of SFAS No. 133. The Company does have certain Interest Rate Lock Commitments (IRLC's) that are carried off balance sheet. These represent forward commitments to fund customer mortgage loans that will be sold, servicing released upon funding. The Company values its position for the outstanding IRLC's on a quarterly basis versus current market rates and tests its position for exposure to future earnings from the sale of those commitments.

**Loans** – Non-refundable loan origination fees and certain direct origination costs are recognized as an adjustment to the yield on the related loan. Interest on loans is recorded to income as earned. Where doubt exists as to collectibility of a loan, the accrual of interest is discontinued, all unpaid accrued interest is reversed and payments subsequently received are applied first to principal. Interest income is recorded after principal has been satisfied and as payments are received.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company's impaired loans include troubled debt restructurings, and performing and non-performing major loans for which full payment of principal or interest is not expected. Categories of non-major homogenous loans, which are evaluated on an overall basis, generally include all loans under \$500,000. The Company calculates an allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of its collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Generally, loans of all types which become 90 days delinquent are reviewed relative to collectibility. Unless such loans are in the process of terms revision to bring to a current status, collection through repossession or foreclosure, those loans deemed uncollectible are charged off against the allowance account. As a matter of policy, loans are placed on a non-accrual status when doubt exists as to collectibility.

Gains or losses on sales of mortgage loans are recognized at settlement dates and are computed as the difference between the sales proceeds received and the net book value of the mortgage loans sold. At the time of sale, a servicing asset is recorded on the sale of loans where the rights to service the loans are retained if expected servicing revenues exceed an amount approximating adequate servicing compensation. The Company held \$18.1 million and \$11.4 million in mortgage loans held for sale at December 31, 2005 and 2004. These loans are originated on a best-efforts basis, whereby a commitment by a third party to purchase the loan has been received concurrent with the Banks' commitment to the borrower to originate the loan.

**Allowance for Loan Losses** - The allowance for loan losses is a valuation account available to absorb losses inherent in the loan portfolio. This methodology considers all loans, includes a routine detailed analysis of the loan portfolio, economic factors, collateral values and considers risks inherent in the various types of lending the Company performs. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur; recoveries are credited to the allowance for loan losses at the time of receipt. The Company has a developed and documented systematic methodology for the determining and maintaining an allowance for loan losses. The allowance for loan losses is increased by charges to expense and decreased by loan charge-offs (net of recoveries).

In 2005, management was presented with a unique and unfamiliar level of uncertainty in developing loan loss estimates for the impact of Hurricane Katrina. The Company's Chief Credit Policy Officer undertook a detailed process to review the impact of the storm on our credit customers. This review resulted in recording a storm-related provision of \$35.2 million. The establishment of this allowance was the result of management's best estimates, based on available information of inherent credit losses resulting from the impact of Hurricane Katrina.

**Property and Equipment** - Property and equipment are recorded at amortized cost. Depreciation is computed using multiple methods based on the estimated useful lives of the related assets, which generally range from 7 to 39 years for buildings and improvements and from 3 to 7 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the term of the lease or the asset's useful life.

The Company sustained significant impairment to several of its facilities and equipment in its coastal markets in Mississippi and Louisiana on August 29, 2005 as Hurricane Katrina passed over the Mississippi and Louisiana coasts. Losses related to the damaged facilities and equipment have been charged against earnings. The percent of damage sustained was determined by independent consultants, insurance adjusters and the Company's Facilities Management personnel. Should the sustained damage differ from these assessments, the result may cause additional charges against or adjustment of the estimated losses.

**Goodwill** – Goodwill represents costs in excess of the fair value of net assets acquired in connection with purchase business combinations. In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangibles*, the Company tests its goodwill for impairment annually or if impairment indicators are present. If indicators of impairment were present in goodwill and undiscounted future cash flows were not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified.

**Other Real Estate** - Other real estate acquired through foreclosure is stated at fair market value at the date of acquisition, net of the costs of disposal. When a reduction to fair market value at the time of foreclosure is required, it is charged to the allowance for loan losses. Valuation allowances associated with other real estate amounted to \$450,000, \$1.3 million and \$2.2 million at December 31, 2005, 2004 and 2003, respectively.

The Company determines the fair value of other real estate utilizing observations of current market conditions, adjusted for contracts existing at the date of valuation. The carrying value of other real estate is adjusted on a quarterly basis.

Any subsequent adjustments as well as the costs associated with holding the real estate are charged to expense.

**Other Intangible Assets** – Other intangible assets consist of core deposit intangibles, value of business acquired, value of insurance expirations, non-compete agreements and mortgage servicing rights (MSRs). Core deposit intangibles relating to acquired banks, the value of business acquired relating to the insurance businesses acquired, the value on insurance expirations and non-compete agreements relating to the acquisition of an insurance agency are being amortized using accelerated methods. If indicators of impairment were present in amortizable intangible assets and undiscounted future cash flows were not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified.

MSRs are rights to service mortgage loans for others, on loans not retained by the Company. For loans originated and sold, where the servicing rights have been retained, the Company allocates the cost of the loan and servicing right based on their relative fair values. The Company amortizes MSRs over the estimated lives of the underlying loans in proportion to the resultant servicing income stream. For the valuation of MSRs, management obtains external information, evaluates overall portfolio characteristics and monitors economic conditions to arrive at appropriate prepayment speeds and other assumptions. These characteristics are used to stratify the servicing portfolio on which MSRs have been recognized to determine valuation and impairment. Impairment is recognized for the amount by which MSRs for a stratum exceed their fair value.

**Life Insurance Contracts** – Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies, which were purchased during the third quarter of 2003 for \$50.0 million, and an additional \$25.0 million during the first quarter of 2004. These contracts are reported at their cash surrender values of \$83.1 million and \$79.6 million at December 31, 2005 and 2004, respectively. Changes in the cash surrender value are included in other income and amounted to \$3.5 million in both 2005 and 2004.

**Reinsurance Receivables** - Certain premiums and losses are assumed from and ceded to other insurance companies under various reinsurance agreements. Reinsurance premiums, loss reimbursement, and reserves related to reinsurance business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contract. The Company may receive a ceding commission in connection with ceded reinsurance. If so, the ceding commission is earned on a monthly pro rata basis in the same manner as the premium and is recorded as a reduction of other operating expenses. The Company currently has \$6.7 million of securities pledged with various state regulatory authorities.

**Self Insurance** – The Company is self insured for certain risks including employee health insurance and records estimated liabilities for these risks.

**Transfers of Financial Assets** – The Company recognizes the financial and servicing assets it controls and the liabilities it incurs, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. All measurements and allocations are based on fair value.

**Trust Income** - Trust income is recorded as earned.

**Income Taxes** - Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities and loans and earnings on the Company's bank-owned life insurance policies). Deferred taxes on temporary differences are calculated at the currently enacted tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

**Pension Accounting** – The Company accounts for its defined benefit pension plan using the actuarial model required by SFAS No. 87, *Employers' Accounting for Pensions*. The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes. The Company also sponsors two defined benefit post-retirement plans, which provide medical benefits and life insurance benefits. The Company accounts for these plans using the actuarial computations required by SFAS 106, *Employers Accounting for Postretirement Benefits Other Than Pensions* as amended by SFAS No. 132. The cost of the defined benefit post-retirement plan is recognized on the projected unit credit method over the employee's approximate service period.

**Policy Reserves and Liabilities** – Unearned premium reserves are based on the assumption that the portion of the original premium applicable to the remaining term and amount of insurance will be adequate to pay future benefits. The reserve is calculated by multiplying the original gross premium times an unearned premium factor. Factors are developed which represent the proportion of the remaining coverage compared to the total coverage provided over the entire term of insurance.

Policy reserves for future life and health claims not yet incurred are based on assumed mortality and interest rates. For disability, the reserves are based upon unearned premium, which is the portion of the original premium applicable to the remaining term and amount of insurance that will be adequate to pay future benefits. PVANYD (Present Value of Amounts Not Yet Due) is an amount for disability claims already reported and incurred and represents the present value of all the future benefits using actuarial disability tables. IBNR (Incurred But Not Reported) is an estimate of claims incurred but not yet reported, and is based upon historical analysis of claims payments.

**Stock-Based Compensation** – The Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plans. Accordingly, compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Deferred compensation associated with restricted stock awards is recognized ratably over the vesting period.

On December 21, 2005, the Board of Directors of the Company approved the accelerated vesting of all outstanding unvested options granted to employees. The Company used guidance provided in FASB Interpretations (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation* in the determination of the expense associated with the accelerated vesting of the unvested options outstanding. Compensation expense was calculated as the difference between the grant price and the current market price on the date of the vesting. Forfeiture rates were calculated based on observation of historical trends. The impact of this action was a reduction in 2005 pretax income of approximately \$558,000. The acceleration of the vesting of these options allowed the Company to avoid future compensation expense estimated to be approximately \$6.4 million.

The Company has adopted the disclosure-only option under SFAS No. 123 through December 31, 2005. The weighted average fair values of options granted during 2005 and 2004 were \$13.43 and \$11.87, respectively. Had compensation costs for the Company's stock options been determined based on the fair value at the grant date, consistent with the method under SFAS No. 123, the Company's net earnings and earnings per share would have been as indicated below:

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net earnings available to common stockholders (in thousands):			
As reported	\$ 54,032	\$ 61,704	\$ 52,302
Add stock based compensation expense included in reported net income, net of tax	558	-	-
Deduct total stock based compensation determined under the fair value method for all awards, net of tax	(8,954)	(1,858)	(1,202)
Pro forma net earnings available to common stockholders	<u>\$ 45,636</u>	<u>\$ 59,846</u>	<u>\$ 51,100</u>
Basic earnings per share:			
As reported	\$ 1.67	\$ 1.91	\$ 1.70
Pro forma	1.41	1.85	1.66
Diluted earnings per share:			
As reported	\$ 1.64	\$ 1.87	\$ 1.64
Pro forma	1.38	1.81	1.61

The fair values of options granted under the Company's stock option plans during the years ended December 31, 2005, 2004, and 2003 were estimated using the Black-Scholes Pricing Model with the following assumptions used: The following table reflects the fair value of stock options at their grant dates and the weighted-average assumptions which were utilized in the Black-Scholes option-pricing model.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fair value of options	\$13.43	\$11.87	\$7.09
Risk-free investment rate	4.00%	3.98%	3.64%
Expected volatility	31.33%	31.33%	28.00%
Expected dividend yield	2.12%	2.07%	1.97%
Expected life (in years)	8	8	8

The Company will adopt SFAS No. 123R, *Accounting for Stock-Based Compensation*, effective January 1, 2006. Under the provisions of this statement, compensation expense is recognized for options granted, modified or settled after January 1, 2006, utilizing the fair value of the grants over the vesting period. The Company will estimate the fair value of each pool of options granted using the Black-Scholes options pricing model.

**Basic and Diluted Earnings Per Common Share** - Basic earnings per common share (EPS) excludes dilution and is computed by dividing net earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is computed by dividing net earnings available to common stockholders by the total of the weighted-average number of shares outstanding plus the "if-converted" effect of outstanding options and outstanding convertible preferred stock.

**Off-Balance Sheet Credit Related Financial Instruments** - In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded when they are funded.

**Recent Accounting Pronouncements** –In October 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Accounting Position (SOP) 03-03, which addresses accounting for differences between contractual cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. This SOP prohibits “carry over” or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. The Company adopted this SOP during the first quarter of 2005 as required and its effect on the consolidated financial statements, to date, has not been material

The guidance in Emerging Issues Task Force (EITF) 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, was originally effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of the Issue was delayed by FASB Staff Position (FSP) EITF Issue 03-1-1, *The Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1*, posted on September 30, 2004. The disclosure requirements continue to be effective and have been implemented by the Company. In November 2005, the FASB issued Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and No. 124, *Accounting for Certain Investments Held by Not for Profit Organizations* and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. This FSP addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. FSP FAS 115-1 and FAS 124-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP is effective for reporting periods beginning after December 15, 2005. The Company does not expect the adoption of FAS 115-1 and FAS 124-1 will have a material impact on its financial condition or results of operations.

On December 16, 2004, the FASB published SFAS No. 123(R), *Share-Based Payments*. This Statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. It will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value of the equity or liability instruments issued. The Company will adopt SFAS No.123(R) effective January 1, 2006. The estimated effect on 2006 earnings is an increase in compensation expense of \$900,000, or a reduction in diluted earnings per share of \$0.03.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This Statement is a replacement of APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine period-specific effects of an accounting change on one or more individual prior periods presented. Then the new accounting principle is applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. Further, the accounting principle is to be applied prospectively from the earliest date when it is impracticable to determine the effect to all prior periods. This Statement is effective for the Company as of January 1, 2006. Adoption of this statement could have an impact if there are future voluntary accounting changes and correction of errors.

**Reclassifications** – Certain prior year amounts have been reclassified to conform to the 2005 presentation.

## **NOTE 2 - NATURAL DISASTER AFFECTING HANCOCK IN 2005**

Hurricane Katrina made landfall along the coasts of Mississippi and Louisiana on August 29, 2005 and significantly impacted the operating region of the Company. Specifically, the storm caused widespread damage in the Company's primary operating region in the Coastal Mississippi counties of Hancock, Harrison, Pearl River and Jackson. While Louisiana also suffered widespread damage from the storm, the Company's base of operation in Louisiana is primarily in the Baton Rouge region, Central Louisiana, the communities on the North Shore of Lake Pontchartrain and Jefferson Parish (suburb of New Orleans). Due to the Company's limited footprint in the more severely affected areas of Louisiana, damage to the Company's facilities there was limited.

The following table and discussion summarizes the more significant financial impacts the storm had on the Company in 2005 (in thousands):

	<u>3Q05</u>	<u>4Q05</u>	<u>2005</u>
Reported earnings	\$ 1,435	\$ 19,065	\$ 54,032
Storm-related items included in earnings:			
Estimated credit losses	(35,201)	-	(35,201)
Gain on involuntary conversion of assets, net	14,135	-	14,135
Other direct expenses, net	(1,859)	(5,692)	(7,551)
Waived fees	(3,785)	-	(3,785)
Total storm-related impact	<u>\$ (26,710)</u>	<u>\$ (5,692)</u>	<u>\$ (32,402)</u>

The Company implemented its disaster response plan as Hurricane Katrina approached the coast line. This plan consisted of alerting and readying key personnel to be transported to the Company's disaster recovery site in Chicago, Illinois. Additional personnel were moved to Company-owned sites in Baton Rouge, Louisiana and Tallahassee, Florida. The Company continued to operate in a disaster recovery mode until such time it was safe and practical to resume full operations in the Gulfport, Mississippi area. As of December 31, 2005, essentially all disaster recovery operations have ceased and the Company had resumed full operations in the Gulfport, Mississippi area.

During the time period that the Company was in disaster recovery mode, certain costs were incurred, such as those related to the operation of a remote disaster recovery site (\$2.4 million), moving costs and setup of equipment (\$.5 million), airfare, lodging and meals related to displaced employees (\$1.2 million), equipment and facility rental costs (\$.2 million), building repairs and clean up costs (\$1.6 million), advertising (\$.8 million) and other various storm-related costs (\$1.0 million).

Hurricane Katrina inflicted significant damage to many of the Company's facilities. Of the Company's 104 branch facilities, 40 sustained at least some damage. There were 9 branches that sustained damage between 50 and 90 percent, while an additional 7 branches were essentially 100% damaged. In addition, the Company's main headquarters building in Gulfport, Mississippi sustained significant damage and will be uninhabitable until repairs are complete in late summer 2006. Management has identified specific fixed asset impairment costs due to the storm totaling \$8.8 million through December 31, 2005.

The Company is very well insured against property and casualty and other related losses associated with natural disasters, such as hurricanes. Through property and casualty, flood, business interruption and other forms of insurance, the Company filed insurance claims with its various providers totaling \$44.0 million. Based on management's best estimate of claims for which collection was received or substantially assured, a receivable related to insurance proceeds of \$23.5 million was booked on September 30, 2005. Additional insurance proceeds are considered contingent upon reaching further agreement on claims and may be recognized as gains upon their receipt.

The Company's management was presented with a unique and unfamiliar level of uncertainty in developing estimates for the impact of Hurricane Katrina on the Company's credit quality. As such, in the immediate aftermath of the storm, the Company's Chief Credit Policy Officer undertook a detailed process to review the impact of the storm on our credit customers and to develop a process to estimate the Company's storm-related credit losses. The result of the aforementioned credit review process was that the Company at September 30, 2005 took a \$35.2 million storm-related provision for loan losses that increased the allowance for loan losses to \$76.6 million. The establishment of this allowance was the result of management's best estimates, based on available information, of inherent credit losses resulting from the impact of Hurricane Katrina. As additional information becomes available related to the overall economic condition of the affected areas and with further assessments by credit officers of individual credit customers, the loss estimate will be revised as necessary.

Since the establishment of the \$35.2 million storm-related allowance for loan losses at September 30, 2005, the Company has recorded storm-related net charge-offs of \$2.35 million. The impact of these storm-related net charge-offs reduced the overall storm-related allowance to \$32.85 million. The Company updated its review of the storm-related allowance at December 31, 2005 and concluded that the remaining allowance of \$32.85 million was appropriate.

In the immediate aftermath of Hurricane Katrina, the Company recognized that many of our customers were in a position where assistance in recovering from the storm would be necessary. The Company immediately ceased charging service charges, return item fees and ATM fees for all depository customers in Mississippi through October 14, 2005 and in Louisiana through September 30, 2005. In addition, certain other late and loan fees, mortgage fees and rental income were waived as a direct result of the storm. The total fees waived through September, 30, 2005 were \$3.8 million.

### NOTE 3 – ACQUISITIONS

On July 1, 2005, Hancock Insurance Agency acquired 100% of the stock of J Everett Eaves, Inc., a well-known commercial insurance agency operating in the New Orleans, Louisiana market. The transaction resulted in recording intangibles of approximately \$4.7 million. Upon completion of an intangibles valuation to be performed by an independent third party, the intangibles will be reallocated among goodwill (its current classification), value of insurance expirations and non-compete agreements. The latter two categories are amortizable intangibles and will be assigned appropriate lives based on valuations.

An intangibles valuation relating to the intangibles recorded in the acquisition of Ross King Walker, Inc. in late 2004 was completed during 2005. The reallocation of intangibles resulted in the recording of three separate categories of intangible assets: value of insurance expirations, \$1.1 million; non-compete agreements, \$0.2 million and goodwill of \$1.3 million. The value of insurance expirations and non-compete agreement assets are being amortized over 10 year and 5 year lives, respectively, on an accelerated basis.

During March 2004, the Company acquired the majority of loans, securities and deposits of the former Guaranty National Bank (GNB) of Tallahassee, Florida. The Office of the Comptroller of Currency closed all locations of GNB on March 12, 2004. With this transaction, the Company acquired five locations with approximately \$40.0 million in performing loans and approximately \$69.0 million in deposits from the Federal Deposit Insurance Corporation (FDIC) for a premium of \$12.6 million, or 18% of acquired deposits. The Company acquired \$77.4 million in assets, which included the core deposit intangible totaling \$1.3 million. The Company paid \$5.0 million in consideration for the acquisition of the assets, net of related deposit liabilities. In accounting for the transaction, management considered it to be an “acquisition of business” and accordingly, accounted for it under the purchase method of accounting pursuant to SFAS No. 141. Final allocations of asset fair values were recorded based on an analysis, performed by an independent third party, of deposit balances acquired in this transaction. In addition to adjustments to properly allocate asset fair values, an adjustment to reduce goodwill by approximately \$1.1 million was recorded in association with the sale of a building acquired through a subsequent settlement activity related to this transaction.

The following table summarized the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Securities and Other Investments	\$ 15,182
Loans	39,923
Property and Equipment	6,154
Goodwill	11,309
Core Deposit Intangibles	1,258
Other	<u>276</u>
Total Assets Acquired	<u>74,102</u>
Deposits	68,997
Other	<u>101</u>
Total Liabilities Assumed	<u>69,098</u>
Net Cash Paid in Connection with the Acquisition	<u>\$ (5,004)</u>

### NOTE 4 - SECURITIES

The amortized cost and fair value of securities classified as available for sale were as follows (in thousands):

	December 31, 2005				December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$ 50,883	\$ 22	\$ 35	\$ 50,870	\$ 9,985	\$ -	\$ 66	\$ 9,919
U.S. government agencies	1,029,656	299	10,695	1,019,260	413,419	1,079	3,559	410,939
Municipal obligations	165,180	3,548	521	168,207	60,956	2,520	120	63,356
Mortgage-backed securities	484,131	1,064	11,657	473,538	352,510	1,428	4,758	349,180
CMOs	194,899	6	2,827	192,078	263,471	238	1,467	262,242
Other debt securities	48,476	288	1,553	47,211	7,056	448	-	7,504
Federal home loan bank stock	5,422	-	-	5,422	7,079	-	-	7,079
Other equity securities	2,098	631	54	2,675	4,146	456	353	4,249
	<u>\$ 1,980,745</u>	<u>\$ 5,858</u>	<u>\$ 27,342</u>	<u>\$ 1,959,261</u>	<u>\$ 1,118,622</u>	<u>\$ 6,169</u>	<u>\$ 10,323</u>	<u>\$ 1,114,468</u>

The amortized cost and fair value of securities classified as available for sale at December 31, 2005, by contractual maturity, (expected maturities will differ from contractual maturities because of rights to call or repay obligations with or without penalties) were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 649,907	\$ 648,929
Due after one year through five years	435,549	432,026
Due after five years through ten years	193,210	189,475
Due after ten years	15,529	15,118
	1,294,195	1,285,548
Mortgage-backed securities & CMOs	679,030	665,616
Equity securities	7,520	8,097
	<u>\$ 1,980,745</u>	<u>\$ 1,959,261</u>

During 2005, securities classified as held to maturity in the portfolio of one of the Company's subsidiaries were sold. A determination was made that this action tainted the investment portfolio of the entire Company. As a result of this action and determination, all securities held by the Company have been classified to available for sale and the carrying value of those securities are adjusted to market as prescribed in Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Investments with a carrying value of approximately \$167 million were reclassified and resulted in the recording of net unrealized gains of approximately \$480,000. There were no associated gains or losses in accumulated other comprehensive income related to any derivative which hedged the acquisition of these securities.

Accordingly, the Company held no securities classified as held to maturity at December 31, 2005.

The amortized cost and fair value of securities classified as held to maturity at December 31, 2004 were as follows (in thousands):

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$ 1,057	\$ 18	\$ 2	\$ 1,073
U.S. government agencies	13,160	90	58	13,192
Municipal obligations	103,914	5,239	-	109,153
Mortgage-backed securities	23,058	691	64	23,685
CMOs	602	16	-	618
Other debt securities	46,110	433	686	45,857
	<u>\$ 187,901</u>	<u>\$ 6,487</u>	<u>\$ 810</u>	<u>\$ 193,578</u>

The details concerning securities classified as available for sale with unrealized losses as of December 31, 2005 were as follows (in thousands):

	Losses < 12 months		Losses 12 months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury	\$ 49,992	\$ 30	\$ 193	\$ 5	\$ 50,185	\$ 35
U.S. government agencies	269,754	569	537,172	10,126	806,926	10,695
Municipal obligations	889	3	21,625	518	22,514	521
Mortgage-backed securities	8,767	188	379,133	11,469	387,900	11,657
CMOs	-	-	191,371	2,827	191,371	2,827
Other debt securities	12,972	583	21,121	970	34,093	1,553
Equity securities	67	54	-	-	67	54
	<u>\$ 342,441</u>	<u>\$ 1,427</u>	<u>\$1,150,615</u>	<u>\$ 25,915</u>	<u>\$ 1,493,056</u>	<u>\$ 27,342</u>

The details concerning securities classified as available for sale with unrealized losses as of December 31, 2004 were as follows (in thousands):

	Losses < 12 months		Losses 12 months or >		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
U.S. Treasury	\$ 9,919	\$ 66	\$ -	\$ -	\$ 9,919	\$ 66
U.S. government agencies	135,447	1,587	93,656	1,972	229,103	3,559
Municipal obligations	1,257	7	7,246	113	8,503	120
Mortgage-backed securities	114,888	1,096	172,372	3,662	287,260	4,758
CMOs	28,727	182	174,818	1,285	203,545	1,467
Equity securities	118	41	1,806	312	1,924	353
	<u>\$ 290,356</u>	<u>\$ 2,979</u>	<u>\$ 449,898</u>	<u>\$ 7,344</u>	<u>\$ 740,254</u>	<u>\$ 10,323</u>

The details concerning securities classified as held to maturity with unrealized losses as of December 31, 2004 were as follows (in thousands):

	Losses < 12 months		Losses 12 months or >		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
U.S. Treasury	\$ 99	\$ 2	\$ -	\$ -	\$ 99	\$ 2
U.S. government agencies	4,518	42	1,699	16	6,217	58
Municipal obligations	5,837	59	331	5	6,168	64
Mortgage-backed securities	27,977	678	363	8	28,340	686
	<u>\$ 38,431</u>	<u>\$ 781</u>	<u>\$ 2,393</u>	<u>\$ 29</u>	<u>\$ 40,824</u>	<u>\$ 810</u>

As of December 31, 2005, the Company had 1,438 investments. Of the total portfolio, 383 securities were in an unrealized loss position. Management and the Asset/Liability Committee are continually monitoring the securities portfolio and the Company believes that its premium amortization policies are appropriate. Accordingly, management is able to effectively measure and monitor the unrealized loss position on these securities and because the Company has adequate liquidity, it can hold these securities to recovery. The unrealized loss of these securities has been determined to be temporary.

Proceeds from sales of available for sale securities were approximately \$133.7 million in 2005, \$20.0 million in 2004 and \$256.6 million in 2003. Gross gains of \$781,000 in 2005, \$165,000 in 2004, \$1.978 million in 2003 and gross losses of \$834,000 in 2005, \$2,000 in 2004 and \$311,000 in 2003 were realized on such sales.

Securities with an amortized cost of approximately \$1,030.9 million at December 31, 2005 and \$943.7 million at December 31, 2004, were pledged primarily to secure public deposits and securities sold under agreements to repurchase.

## NOTE 5 - LOANS

Loans, net of unearned income, consisted of the following (in thousands):

	December 31,	
	2005	2004
Real estate loans	\$ 1,879,107	\$ 1,764,334
Commercial and industrial loans	364,163	290,005
Loans to individuals for household, family and other consumer expenditures	520,218	506,949
Leases and other loans	225,698	187,272
	<u>\$ 2,989,186</u>	<u>\$ 2,748,560</u>

The Company generally makes loans in its market areas of South Mississippi, South Alabama, South & Central Louisiana and Northwest Florida. Loans are made in the normal course of business to its directors, executive officers and their associates on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Such loans did not involve more than normal risk of collectibility. Balances of loans to the Company's directors, executive officers and their affiliates at December 31, 2005 and 2004 were approximately \$15.2 million and \$14.8 million, respectively. New loans and repayments of directors and executive officers and their affiliates on these loans for 2005 were \$4.4

million and \$4.0 million, respectively. New loans, repayments and changes in directors and executive officers and their affiliates on these loans for 2004 were \$3.0 million, \$3.6 million and \$110,000, respectively.

The Company's management was presented with the challenge of developing estimates for the impact of Hurricane Katrina on the Company's credit quality. As such, in the immediate aftermath of the storm, the Company's Chief Credit Policy Officer undertook a detailed process to review the impact of storm on our credit customers and to develop a process to estimate the Company's storm-related credit losses. The result of the aforementioned credit review process was that the Company at September 30, 2005 took a \$35.2 million storm-related provision for loan losses that increased the allowance for loan losses to \$76.6 million. The establishment of this allowance was the result of management's best estimates, based on available information, of inherent credit losses resulting from the impact of Hurricane Katrina. As additional information becomes available related to the overall economic condition of the affected areas and with further assessments by credit officers of individual credit customers, the loss estimate will be revised as necessary.

Since the establishment of the \$35.2 million storm-related allowance for loan losses at September 30, 2005, the Company has recorded storm-related net charge-offs of \$2.35 million. The impact of these storm-related net charge-offs reduced the overall storm-related reserve to \$32.85 million. The Company updated its review of the storm-related allowance at December 31, 2005 concluded that the remaining allowance of \$32.85 million was adequate.

Changes in the allowance for loan losses were as follows (in thousands):

	Years Ended December 31,				
			2005	2004	2003
	Non-Storm	Storm-Related	Total		
Balance at January 1	\$ 40,682	\$ -	\$ 40,682	\$ 36,750	\$ 34,740
Recoveries	7,052	-	7,052	7,823	6,399
Loans charged off	(13,461)	(2,350)	(15,811)	(20,428)	(19,543)
Provision charged to operating expense	7,434	35,201	42,635	16,537	15,154
Balance at December 31	<u>\$ 41,707</u>	<u>\$ 32,851</u>	<u>\$ 74,558</u>	<u>\$ 40,682</u>	<u>\$ 36,750</u>

Non-accrual and renegotiated loans amounted to approximately 0.36% and 0.27% of total loans at December 31, 2005 and 2004, respectively. In addition, the Company's other individually evaluated impaired loans amounted to approximately 0.86% and 0.19% of total loans at December 31, 2005 and 2004, respectively. The average amounts of impaired loans carried on the Company's books for 2005, 2004 and 2003 were \$9.3 million, \$9.8 million and \$14.1 million, respectively. Interest recognized on impaired loans is immaterial to the Company's operating results. Related allowance amounts were not significant during the years ended December 31, 2005, 2004 or 2003. The amount of interest not accrued on these loans did not have a material effect on earnings in 2005, 2004 or 2003.

As of December 31, 2005 and December 31, 2004, the Company had investments in classified loans totaling \$112.1 million and \$115.7 million, respectively. The Company's allowance for loan losses includes accruals of \$17.1 million and \$13.9 million associated with these loans as of December 31, 2005 and 2004, respectively. The remaining amount of these loans, \$95.0 million and \$101.7, respectively, is not provided for specifically in the allowance for loan losses.

In some instances, loans are placed on nonaccrual status. All accrued but uncollected interest related to the loan is deducted from income in the period the loan is assigned a nonaccrual status. For such period as a loan is in nonaccrual status, any cash receipts are applied first to principal, second to expenses incurred to cause payment to be made and lastly to the recovery of any reversed interest income and interest that would be due and owing subsequent to the loan being placed on nonaccrual status.

In the aftermath of Hurricane Katrina, Hancock recognized that many of our credit customers (mostly residential mortgage holders) were in a position where time would be needed to recover sufficiently from the storm before they could resume payments on their loans. Accommodations in the form of loan payment extensions (most for 90 days) were granted on a customer-by-customer basis. While these accommodations gave customers time to re-align their finances after the storm the result of this cooperative effort has increased the Company's past due loan percentages. As customers receive insurance proceeds, loans for which alternate payment arrangements had been made will resume payments on their loans. In some cases, such as customer loans collateralized by property that was damaged, the insurance proceeds will be applied toward satisfying the outstanding balance.

## NOTE 6 - PROPERTY AND EQUIPMENT

Hurricane Katrina inflicted significant damage to many of the Company's facilities. Forty of the Company's 104 branch facilities sustained at least some damage. Nine branches sustained damage between 50 and 90 percent, while an additional 7 branches were essentially 100% damaged. In addition, the Company's main headquarters building in Gulfport, Mississippi sustained significant damage and will be uninhabitable until repairs are complete in late summer 2006. Management has identified specific fixed asset impairments due to the storm totaling \$8.8 million through December 31, 2005.

Property and equipment stated at cost, less accumulated depreciation and amortization, consisted of the following (in thousands):

	December 31, 2004	Additions	Dispositions	Impairment	December 31, 2005
Land	\$ 18,964	\$ 1,699	\$ (320)	\$ -	\$ 20,343
Land improvements	1,058	246	-	(8)	1,296
Buildings and leasehold improvements	72,876	8,354	(1,221)	(15,617)	64,392
Furniture, fixtures and equipment	64,715	5,330	(372)	(18,396)	51,277
	157,613	15,629	(1,913)	(34,021)	137,308
Accumulated depreciation and amortization	(77,765)	(6,784)	1,458	25,169	(57,922)
Total Property and Equipment, net	\$ 79,848	\$ 8,845	\$ (455)	\$ (8,852)	\$ 79,386

#### NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for 2005 and 2004 were as follows (in thousands):

	December 31,	
	2005	2004
Balance at January 1	\$ 55,409	\$ 49,100
Goodwill on business acquisition	4,715	11,309
Reallocation based on subsequent valuation	1,304	-
Goodwill allocated to core deposit intangibles during the period	-	(5,000)
Goodwill adjustment related to consolidation of branches	(10)	-
Balance at December 31	\$ 61,418	\$ 55,409

The following tables present information regarding the components of the Company's other intangible assets, and related amortization for the dates indicated (in thousands):

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Core deposit intangibles	\$ 14,137	\$ 5,924	\$ 14,148	\$ 4,281
Value of insurance business acquired	1,673	833	2,575	179
Non-compete agreements	228	76	-	-
Mortgage servicing rights	4,292	2,716	4,835	2,315
	\$ 20,330	\$ 9,549	\$ 21,558	\$ 6,775
Aggregate amortization expense for:				
Core deposit intangibles			\$ 1,654	\$ 1,766
Value of insurance business acquired			471	179
Non-compete agreements			69	-
Mortgage servicing rights			818	1,048
			\$ 3,012	\$ 2,993

Amortization of the core deposit intangibles is estimated to be approximately \$1.4 million in 2006, \$1.2 million in 2007, \$1.1 million in 2008, \$1.1 million in 2009, \$1.1 million in 2010 and the remainder of \$2.3 million thereafter. The amortization of the value of business acquired and non-compete agreements are expected to approximate \$237,000 in 2006, \$201,000 in 2007, \$166,000 in 2008, \$132,000 in 2009, \$97,000 in 2010 and the remainder of \$158,000 million thereafter. Amortization of servicing rights is estimated to be approximately \$570,000 in 2006, \$402,000 in 2007, \$266,000 in 2008, \$182,000 in 2009, \$118,000 in 2010 and the remainder of \$38,000 million thereafter. The weighted-average amortization period used for intangibles is 10 years. The servicing rights are included in the mortgage subsidiary's assets, which have been reported within the Mississippi segment.

#### NOTE 8 - DEPOSITS

The Company experienced significant deposit growth since Hurricane Katrina impacted our market area. The majority of the deposit inflows consisted of transaction accounts and, to a lesser extent, short duration (12 months or less) time deposits. This rapid inflow of deposit dollars creates the potential for additional future liquidity needs; accordingly, the deposit inflows since the

storm were primarily invested in Fed Funds, short-term U. S. Treasury Bills and U. S. Agency Discount notes, and short duration U. S. Agency bonds.

The maturities of time deposits at December 31, 2005 are as follows (in thousands):

2006	\$ 906,373
2007	277,045
2008	175,311
2009	98,255
2010	43,049
thereafter	14
	<u>\$ 1,500,047</u>

Time deposits of \$100,000 or more totaled approximately \$633.6 million and \$479.8 million at December 31, 2005 and 2004, respectively.

**NOTE 9 – FEDERAL FUNDS SOLD, FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

The following table presents information concerning federal funds purchased and sold and securities sold under agreements to repurchase (in thousands):

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Federal funds sold		
Amount Outstanding at period-end	\$ 402,968	\$ 142,135
Weighted average interest rate at period-end	4.00%	2.13%
Federal funds purchased		
Amount Outstanding at period-end	\$ 1,475	\$ 800
Weighted average interest rate at period-end	3.95%	2.15%
Weighted average interest rate during the year	3.27%	1.64%
Average daily balance during the year	\$ 10,262	\$ 14,181
Maximum month end balance during the year	\$ 55,120	\$ 41,852
Securities sold under agreements to repurchase		
Amount Outstanding at period-end	\$ 250,807	\$ 195,478
Weighted average interest rate at period-end	4.29%	1.13%
Weighted average interest rate during the year	1.94%	0.98%
Average daily balance during the year	\$ 224,842	\$ 195,470
Maximum month end balance during the year	\$ 258,508	\$ 243,101

The carrying values of federal funds purchased and securities sold under agreements to repurchase, by contractual maturity are as follows (in thousands):

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Demand/in one day	\$ 252,282	\$ 146,278
Term up to 1 year	-	50,000
	<u>\$ 252,282</u>	<u>\$ 196,278</u>

Specific U. S. Treasury and U. S. Government agencies with carrying values of \$250.8 million at December 31, 2005 and \$198.7 million at December 31, 2004, collateralized the repurchase agreements. The fair value of this collateral approximated \$259.2 million at December 31, 2005 and \$198.3 million at December 31, 2004.

## **NOTE 10 – SHORT-TERM AND LONG-TERM NOTES**

At December 31, 2003, short-term notes consisted of a promissory note for \$9.4 million. These funds were used to fund the purchase of Magna Insurance Company on December 31, 2003. The note carried a rate of 2.75% and matured March 31, 2004. There were no such notes outstanding at December 31, 2005 or 2004.

Long-term notes consist primarily of \$50.0 million of advances from the Federal Home Loan Bank (FHLB), which were assumed through acquisition. The advances consist of two notes, \$40.0 million bears interest at 4.49% and is due January 21, 2009 and \$10.0 million bears interest at 4.75% and is due November 11, 2008. These advances are fixed rate, non-prepayable and are callable quarterly at the FHLB's option. These advances are collateralized by a blanket pledge of certain residential mortgage loans. The Company has an approved line of credit with the FHLB of approximately \$220.9 million, which had no outstanding balance at December 31, 2005 and 2004.

## **NOTE 11 – REDEEMABLE PREFERRED STOCK**

On June 28, 2001, the Company's stockholders approved the issuance of up to 50 million shares of \$20 par value preferred stock on terms to be determined by the Company's Board of Directors.

The issuance of 1,658,275 shares of 8% Cumulative Convertible Preferred Stock Series A was authorized by the Board of Directors in connection with the acquisition of Lamar Capital Corporation on July 1, 2001. Each share of the preferred stock was convertible into 1.3332 of the Company's common stock at any time after issuance. The Company was able to call for conversion of the preferred stock into common stock or for redemption at par any time between the 30<sup>th</sup> and 60<sup>th</sup> month following issuance if the closing price of the Company's common stock exceeded \$18.75 for 20 consecutive days. After 60 months, the Company was able to call for redemption at par at any time. At the end of 30 years the Company must have redeemed the preferred stock at par.

The Series A Preferred stock qualified as Tier 1 capital for regulatory purposes but was classified between liabilities and stockholders' equity for reporting under accounting principles generally accepted in the United States of America.

On February 4, 2004, the Company completed the redemption/conversion of substantially all the shares of 8% Cumulative Convertible Preferred Stock. The conversion factor was 1.3332 shares of the Company's common stock for each share of preferred stock. A total of 7,304 shares of the preferred stock were redeemed for cash at the contract price of \$20.00 per share plus pro rated dividends of \$0.1511 per share.

## **NOTE 12 – COMMON STOCKHOLDERS' EQUITY**

Common stockholders' equity of the Company includes the undistributed earnings of the bank subsidiaries. Dividends are payable only out of undivided profits or current earnings. Moreover, dividends to the Company's stockholders can generally be paid only from dividends paid to the Company by the Banks. Consequently, dividends are dependent upon earnings, capital needs, regulatory policies and statutory limitations affecting the Banks. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Dividends paid by Hancock Bank are subject to approval by the Commissioner of Banking and Consumer Finance of the State of Mississippi and those paid by Hancock Bank of Louisiana are subject to approval by the Commissioner of Financial Institutions of the State of Louisiana. Dividends paid by Hancock Bank of Florida are subject to approval by the Florida Department of Financial Services. The amount of capital of the subsidiary banks available for dividends at December 31, 2005 was approximately \$82 million.

Risk-based capital requirements are intended to make regulatory capital more sensitive to risk elements of the Company. Currently, the Company and its bank subsidiaries are required to maintain a minimum risk-based capital ratio of 8.0%, with not less than 4.0% in Tier 1 capital. In addition, the Company and its bank subsidiaries must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total average assets) of at least 3.0% based upon the regulators latest composite rating of the institution.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required each federal banking agency to implement prompt corrective actions for institutions that it regulates. The rules provide that an institution is "well capitalized" if its total risk-based capital ratio is 10.0% or greater, its Tier 1 risk-based capital ratio is 6.0% or greater, its leverage ratio is 5.0% or greater and the institution is not subject to a capital directive. Under this regulation, all of the subsidiary banks were deemed to be "well capitalized" as of December 31, 2005 and 2004 based upon the most recent notifications from their regulators. There are no conditions or events since those notifications that management believes would change these classifications.

The Company and its bank subsidiaries are required to maintain certain minimum capital levels. At December 31, 2005 and 2004, the Company and the Banks were in compliance with their respective statutory minimum capital requirements. Following is a summary of the actual capital levels at December 31, 2005 and 2004 (amounts in thousands):

	Actual		Required for Minimum Capital Adequacy		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %
<b>At December 31, 2005</b>						
Total capital (to risk weighted assets)						
Company	\$ 466,501	12.73	\$ 293,166	8.00	\$ N/A	N/A
Hancock Bank	241,626	12.21	158,314	8.00	197,892	10.00
Hancock Bank of Louisiana	181,077	11.40	127,072	8.00	158,839	10.00
Hancock Bank of Florida	27,067	26.08	8,303	8.00	10,378	10.00
Tier 1 capital (to risk weighted assets)						
Company	\$ 420,283	11.47	\$ 146,568	4.00	\$ N/A	N/A
Hancock Bank	216,594	10.95	79,121	4.00	118,682	6.00
Hancock Bank of Louisiana	161,147	10.15	63,506	4.00	95,259	6.00
Hancock Bank of Florida	25,768	24.83	4,151	4.00	6,227	6.00
Tier 1 leverage capital						
Company	\$ 420,283	7.85	\$ 160,618	3.00	\$ N/A	N/A
Hancock Bank	216,594	6.84	94,997	3.00	158,329	5.00
Hancock Bank of Louisiana	161,147	7.67	63,030	3.00	105,050	5.00
Hancock Bank of Florida	25,768	24.01	3,220	3.00	5,366	5.00
<b>At December 31, 2004</b>						
Total capital (to risk weighted assets)						
Company	\$ 437,481	13.58	\$ 257,804	8.00	\$ N/A	N/A
Hancock Bank	251,273	14.44	139,163	8.00	173,954	10.00
Hancock Bank of Louisiana	167,338	11.96	111,907	8.00	139,884	10.00
Hancock Bank of Florida	6,545	11.51	4,548	8.00	5,685	10.00
Tier 1 capital (to risk weighted assets)						
Company	\$ 399,320	12.39	\$ 128,902	4.00	\$ N/A	N/A
Hancock Bank	229,500	13.19	69,582	4.00	104,372	6.00
Hancock Bank of Louisiana	151,664	10.84	55,954	4.00	83,930	6.00
Hancock Bank of Florida	5,831	10.26	2,274	4.00	3,411	6.00
Tier 1 leverage capital						
Company	\$ 399,320	8.97	\$ 133,587	3.00	\$ N/A	N/A
Hancock Bank	229,500	8.74	78,768	3.00	131,281	5.00
Hancock Bank of Louisiana	151,664	8.46	53,779	3.00	89,631	5.00
Hancock Bank of Florida	5,831	8.19	2,136	3.00	3,560	5.00

## NOTE 13 - INCOME TAXES

Income taxes consisted of the following components (in thousands):

	Years Ended December 31,		
	2005	2004	2003
Current federal	\$ 34,183	\$ 28,001	\$ 23,589
Current state	3,089	2,121	888
Total currently payable	<u>37,272</u>	<u>30,122</u>	<u>24,477</u>
Deferred federal	(14,864)	(2,960)	126
Deferred state	(3,537)	(569)	24
Total deferred	<u>(18,401)</u>	<u>(3,529)</u>	<u>150</u>
Total tax expense	<u>\$ 18,871</u>	<u>\$ 26,593</u>	<u>\$ 24,627</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2005	2004
Deferred tax assets:		
Minimum pension liability	\$ 5,031	\$ 5,055
Post-retirement benefit obligation	2,039	1,915
Allowance for loan losses	27,711	15,055
Deferred compensation	1,851	1,559
Unrealized loss on securities available for sale	7,908	1,550
Premium amortization on securities, net	5,186	-
Other	-	29
Gross deferred tax assets	<u>49,726</u>	<u>25,163</u>
Deferred tax liabilities:		
Prepaid pension	(1,856)	(1,829)
Loan servicing assets	(603)	(964)
Property and equipment depreciation	(5,034)	(5,035)
Core deposit intangible	(339)	(736)
Discount accretion on securities, net	-	(978)
Prepaid expenses	(1,353)	-
Other	(161)	-
Gross deferred tax liabilities	<u>(9,346)</u>	<u>(9,542)</u>
Net deferred tax assets	<u>\$ 40,380</u>	<u>\$ 15,621</u>

Based upon the level of historical taxable income and projections for future taxable income over the periods, which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of these deductible differences existing at December 31, 2005. Therefore, no valuation allowance is necessary at this time.

The reason for differences in income taxes reported compared to amounts computed by applying the statutory income tax rate of 35% to earnings before income taxes were as follows (in thousands):

	Years Ended December 31,					
	2005		2004		2003	
	Amount	%	Amount	%	Amount	%
Taxes computed at statutory rate	\$ 25,526	35	\$ 30,904	35	\$ 27,854	35
Increases (decreases) in taxes resulting from:						
State income taxes, net of federal income tax benefit	1,059	1	1,099	1	619	1
Tax-exempt interest	(4,105)	(5)	(4,015)	(5)	(3,964)	(5)
Bank owned life insurance	(1,279)	(2)	(1,248)	-	-	-
Contingency release, net	(1,163)	(1)	-	-	-	-
Tax Credits	(674)	(1)	-	-	-	-
Other, net	(493)	(1)	(147)	-	118	-
Income tax expense	<u>\$ 18,871</u>	<u>26</u>	<u>\$ 26,593</u>	<u>31</u>	<u>\$ 24,627</u>	<u>31</u>

The release of contingency reserve is due to recent indications that the Company is meeting the qualifications required by the IRS for tax-exempt income from Bank Owned Life Insurance.

Due to recent tax legislation following Hurricane Katrina, there are several tax credits that will be available to the Company for the 2005 tax year, the Worker's Opportunity Tax Credit and the Employee Retention Tax Credit.

The income tax provisions related to items included in the Consolidated Statements of Other Comprehensive Earnings were as follows (in thousands):

	Years Ended December 31,		
	2005	2004	2003
Minimum pension liability	\$ 24	\$ (142)	\$ (965)
Unrealized holdings (losses) gains	(6,347)	(2,526)	(7,384)
Reclassification adjustments	49	(72)	(574)
Total (Benefit)	<u>\$ (6,274)</u>	<u>\$ (2,740)</u>	<u>\$ (8,923)</u>

#### NOTE 14 - EMPLOYEE BENEFIT PLANS

The Company has a non-contributory pension plan covering substantially all salaried full-time employees who have been employed by the Company the required length of time. The Company's current policy is to contribute annually the minimum amount that can be deducted for federal income tax purposes. The benefits are based upon years of service and the employee's compensation during the last five years of employment. The measurement date for the pension plan is September 30, 2005. Data relative to the pension plan follows (in thousands):

	Years Ended September 30,	
	2005	2004
<b>Reconciliation of Benefit Obligation:</b>		
Benefit obligation at beginning of year	\$ 57,925	\$ 51,602
Service cost	2,153	2,058
Interest cost	3,395	3,151
Actuarial loss	4,400	3,686
Benefits paid	(2,682)	(2,572)
Benefit obligation at end of year	<u>65,191</u>	<u>57,925</u>
<b>Reconciliation of Plan Assets:</b>		
Fair value of plan assets at beginning of year	42,565	37,798
Actual return on plan assets	5,600	4,495
Employer contributions	3,119	3,032
Benefits paid	(2,683)	(2,572)
Expenses	(92)	(188)
Fair value of plan assets at end of year	<u>48,509</u>	<u>42,565</u>
Unfunded status	(16,682)	(15,360)
Unrecognized net actuarial loss	19,774	18,471
Unrecognized prior service cost	-	26
Adjustment to recognize minimum pension liability	(13,451)	(13,513)
Accrued pension cost, net	<u>\$ (10,359)</u>	<u>\$ (10,376)</u>
<b>Rate assumptions at December 31:</b>		
Discount rate	5.50%	6.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net pension expense included the following (income) expense components:			
Service cost benefits earned during the period	\$ 2,153	\$ 2,057	\$ 1,808
Interest cost on projected benefit obligation	3,395	3,151	2,977
Return on plan assets	(3,410)	(3,043)	(2,711)
Amortization of prior service cost	26	83	92
Net amortization and deferral	999	938	804
Net pension expense	<u>\$ 3,163</u>	<u>\$ 3,186</u>	<u>\$ 2,970</u>

**Rate assumptions for the years ended December 31:**

Discount rate	5.50%	6.00%	6.25%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%	3.00%

The long term rate of return is determined by using the weighted-average of historical real returns for major asset classes based on target asset allocations. The result is then adjusted for inflation. The discount rate is based on published Aa Seasoned Moody Twenty Year Bond Rate as the measurement date, adjusted within a band of 25 basis points. The adjustment reflects the general longer duration of liabilities under the Hancock Bank Pension Plan since the Plan does not pay lump sums in excess of \$6,000.

In accordance with SFAS No. 87, the Company has recorded an additional minimum pension liability for underfunded plans of \$13.5 million at December 31, 2005 and 2004. This amount represents the excess of accumulated benefit obligations over the Plan's assets as adjusted for prepaid pension costs. Accumulated benefit obligations represent the actuarial present value of benefits attributable to employee service through the measurement date, excluding the effect of projected future pay increases. The Company uses a measurement date of September 30. A corresponding amount, net of related income taxes of \$5.0 million and \$5.1 million for December 31, 2005 and 2004 was charged directly to common stockholders' equity and is a component of other comprehensive income. The principal cause of this underfunded pension liability is that the actual return on plan assets in recent years has been less than expected due to overall market conditions and the discount rate used to measure the liability has declined in a direction consistent with the recent trend in interest rates. The Company has been making the contributions required by the Internal Revenue Service (IRS). During 2005, 2004 and 2003 the Company's contributions to this plan were \$2.7 million, \$3.1 million, and \$3.0 million, respectively. The Company expects to contribute \$3.0 million to the pension plan in 2006.

The accumulated benefit obligation as of December 31, 2005 and 2004 was \$57.0 million and \$51.2 million, respectively. The benefits expected to be paid in each year from 2006 to 2010 are \$2.9 million, \$2.9 million, \$3.0 million and \$3.1 million, \$3.2 million, respectively. The aggregate benefits to be paid in the five years from 2011 through 2015 are \$19.6 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2005 and include estimated future employee service.

The Company's pension plan weighted-average asset allocations and target allocations at December 31, 2005 and 2004, by asset category, are as follows:

Asset Category	<u>Plan Assets</u>		<u>Target Allocation</u>	
	<u>at December 31,</u>		<u>at December 31,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Equity Securities	54%	56%	30-60%	30%-60%
Fixed Income Securities	45%	41%	40-70%	40%-70%
Cash Equivalents	1%	3%	0-10%	0%-10%
	<u>100%</u>	<u>100%</u>		

The investment strategy of the pension plan is to emphasize a balanced return of current income and growth of principal while accepting a moderate level of risk. The investment goal of the plan is to meet or exceed the return of balanced market index comprised of 50% S&P 500 and 50% Lehman Brothers Intermediate Aggregate Index. The pension plan investment committee meets periodically to review the policy, strategy and performance of the plan.

The pension plan's assets do not include any of the Company's common stock at December 31, 2005 and 2004, respectively.

The Company sponsors two defined benefit post-retirement plans, other than the pension plan, that cover full-time employees who have reached 45 years of age. One plan provides medical benefits and the other provides life insurance benefits. The post-retirement health care plan is contributory, with retiree contributions adjusted annually and subject to certain employer contribution maximums; the life insurance plan is non-contributory. The Company has not recognized assets associated with these plans and neither of these plans have been funded. The measurement date for the plans is September 30, 2005. Data relative to these post-retirement benefits, were as follows (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 6,818	\$ 5,747
Service cost	269	278
Interest cost	380	371
Actuarial loss	529	949
Benefits paid	<u>(479)</u>	<u>(527)</u>
Benefit obligation at end of year	7,517	6,818
Fair value of plan assets	-	-
Amount unfunded	<u>(7,517)</u>	<u>(6,818)</u>
Unrecognized transition obligation being amortized over 20 years	31	36
Unrecognized net actuarial loss	1,886	1,535
Accrued post-retirement benefit cost	<u>\$ (5,600)</u>	<u>\$ (5,247)</u>
<b>Rate assumptions at December 31:</b>		
Discount rate	5.50%	6.00%

	<b>Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Net Periodic Post-Retirement Benefit Cost:</b>			
Service cost benefits attributed to service during the year	\$ 269	\$ 278	\$ 226
Interest costs on accumulated post-retirement benefit obligation	380	371	335
Amortization of transition obligation over 20 years	5	5	5
Amortization of unrecognized net loss and other	<u>33</u>	<u>29</u>	<u>(29)</u>
Net Periodic Post-Retirement Cost	<u>\$ 688</u>	<u>\$ 683</u>	<u>\$ 537</u>

For measurement purposes in 2005, an 8.5% annual rate of increase in the over age 65 per capita cost of covered health care benefits was assumed for 2006. The rate was assumed to decrease gradually to 5.00% over 4 years and remain at that level thereafter. In 2004, a 12% annual rate of increase in the over age 65 per capita cost of covered health care benefits was assumed. The rate was assumed to decrease gradually to 5.00% over 6 years and remain at that level thereafter. The health care cost trend rate assumption has an effect on the amounts reported. The discount rate is based on the published Aa Seasoned Moody Twenty Year Bond Rate as of the measurement date, adjusted within a band of 25 basis points. The adjustment reflects the general longer duration of liabilities under the Hancock Bank Pension Plan since the Plan does not pay lump sums in excess of \$6,000. To illustrate, increasing the assumed health care cost trend rates by 1% in each year would increase the accumulated post-retirement benefit obligation at December 31, 2005, by \$7.8 million and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year then ended by \$703,000. A 1% decrease in the rate would decrease those items by \$7.8 million and \$703,000, respectively. The Company expects to contribute \$322,000 to the plans in 2006.

In determining the end-of-year valuation of the post-retirement benefit plan, it was assumed that the prescription drug benefit is actuarially equivalent to the Medicare Prescription Drug Act which becomes effective January 1, 2006. This act provides a 28% subsidy for post-65 prescription drug benefits. The valuation reflected an estimated decrease in the accumulated benefit obligation of \$2.3 million and a decrease in the aggregate service and interest costs of \$240,000 at the adoption date of December 31, 2004 due the prescription drug subsidy.

Expected benefits to be paid over the next ten years and are reflected the following table (in thousands):

2006	\$ 322
2007	331
2008	333
2009	336
2010	378
2011 - 2015	<u>2,020</u>
	<u>\$ 3,720</u>

The Company has a 401(k) retirement plan covering substantially all employees who have been employed the required length of time and meet certain other requirements. Under this plan, employees can defer a portion of their salary and matching contributions are made at the discretion of the Board of Directors, which amounted to \$1.2 million in 2005, \$1.0 million in 2004 and \$1.1 million in 2003.

In addition, the Company has an employee stock purchase plan that is designed to provide the employees of the Company a convenient means of purchasing common stock of the Company. Substantially all salaried, full-time employees, with the exception of Leo W. Seal, Jr., President, who have been employed by the Company the required length of time, are eligible to participate. The Company makes no contribution to each participant's contribution. The numbers of shares purchased under this plan were 10,461 in 2005, 11,418 in 2004 and 21,832 in 2003.

The post-retirement plans relating to health care payments and life insurance and the stock purchase plan are not guaranteed and are subject to immediate cancellation and/or amendment. These plans are predicated on future Company profit levels that will justify their continuance. Overall health care costs are also a factor in the level of benefits provided and continuance of these post-retirement plans. There are no vested rights under the post-retirement health or life insurance plans.

#### **NOTE 15 - EMPLOYEE STOCK PLANS**

In February 1996, the stockholders of the Company approved the Hancock Holding Company 1996 Long-Term Incentive Plan (the Plan) to provide incentives and awards for employees of the Company and its subsidiaries. Awards as defined in the Plan include, with limitations, stock options (including restricted stock options), restricted and performance shares, and performance stock awards, all on a stand-alone, combination or tandem basis. A total of 15,000,000 common shares can be granted under the Plan with an annual grant maximum of 2% of the Company's outstanding common stock (as reported for the fiscal year ending immediately prior to such plan year). Since the inception of this plan, 2,957,561 shares have been granted. Grants of restricted stock awards are limited to 1/3 of the grant totals. The exercise price is equal to the market price on the date of grant, except for certain of those granted to major stockholders where the option price is 110% of the market price.

On January 13, 2005, options to purchase 378,886 shares were granted, of which 375,973 are exercisable at \$31.20 per share and 2,913 are exercisable at \$34.32 per share. Options totaling 375,973 had a vesting rate of 20% per year on the anniversary date of grant and 2,913 are exercisable six months after the date of grant.

On January 8, 2004, options to purchase 338,880 shares were granted, of which 335,630 are exercisable at \$27.97 per share and 3,250 are exercisable at \$30.76 per share. Options totaling 335,630 had a vesting rate of 20% per year on the anniversary date of grant and 3,250 became exercisable six months after the date of grant.

On May 3, 2004 and July 26, 2004, options to purchase 2,000 and 250 shares, respectively were granted, which are exercisable at \$27.99 and \$29.54 per share, respectively. These options were assigned a vesting rate of 20% per year on the anniversary date of grant.

On January 6, 2003, options to purchase 325,860 shares were granted, of which 321,794 are exercisable at \$22.36 per share and 4,066 are exercisable at \$24.59 per share. Options totaling 321,794 had a vesting rate of 20% per year on the anniversary date of grant and 4,066 became exercisable six months after the date of grant.

Following is a summary of the transactions:

	<b>Number of Options Outstanding</b>	<b>Average Exercise Price Per Share</b>	<b>Exercise of Options Aggregate</b>
Balance January 1, 2003	1,062,894	\$ 14.25	\$ 15,147,093
Granted	325,860	22.38	7,293,688
Exercised	(100,850)	13.48	(1,359,816)
Cancelled	<u>(33,892)</u>	<u>17.44</u>	<u>(591,179)</u>
Balance December 31, 2003	1,254,012	16.34	20,489,786
Granted	341,130	27.99	9,549,233
Exercised	(152,342)	15.01	(2,286,759)
Cancelled	<u>(35,289)</u>	<u>16.79</u>	<u>(592,489)</u>
Balance December 31, 2004	1,407,511	19.30	27,159,771
Granted	378,886	31.22	11,830,332
Exercised	(132,870)	15.96	(2,121,216)
Cancelled	<u>(36,748)</u>	<u>21.61</u>	<u>(794,181)</u>
Balance December 31, 2005	<u>1,616,779</u>	<u>\$ 22.32</u>	<u>\$ 36,074,705</u>

On December 21, 2005, the Board of Directors of the Company approved the accelerated vesting of all outstanding unvested options granted to employees. In determining the expense associated with the accelerated vesting of the unvested options outstanding, compensation expense was calculated as the difference between the grant price and the current market price on the date of the vesting. Forfeiture rates were calculated based on observation of historical trends. The impact of this action was a reduction in 2005 pretax income of approximately \$558,000. The acceleration of the vesting of these options allowed the Company to avoid future compensation expense estimated to be approximately \$6.4 million.

The Company will adopt SFAS No. 123R, *Accounting for Stock-Based Compensation* effective January 1, 2006. Under the provisions of this statement, compensation expense is recognized using the straight-line method for options granted, modified or settled after January 1, 2006, utilizing the fair value of the grants over the vesting period. Hancock estimates the fair value of each option granted using the Black-Scholes options pricing model. Through December 31, 2005, Hancock accounted for incentive stock options under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to employee*". Under APB No. 25, because the exercise price of Hancock's stock options equaled the market price for the underlying stock on the date of grant, no compensation expense was recognized.

Following is a summary of certain information about the exercisable stock options outstanding as of December 31, 2005:

<b>Range of Exercise Prices</b>	<b>Number of Options Outstanding</b>	<b>Weighted Avg. Years to Expiration</b>	<b>Average Exercise Price Per Share</b>
\$13.33	29,934	1.00	\$ 13.33
\$20.00	94,069	2.00	20.00
\$14.50	260,042	5.18	14.50
\$12.75	123,901	4.00	12.75
\$11.67	138,242	5.00	11.67
\$22.36 - 24.59	275,396	6.93	22.39
\$27.97-30.76	317,790	7.95	27.99
\$27.99	2,000	8.25	27.99
\$29.54	250	8.58	29.54
\$31.20 - 34.32	375,155	9.04	31.22
\$11.67-\$30.76	<u>1,616,779</u>	<u>6.55</u>	<u>\$ 22.32</u>

During 2005, 2004 and 2003, the Company granted 46,711, 49,712 and 43,200 restricted shares, respectively. The shares granted in 2005 vest at the end of five years. Shares granted in 2004 and 2003 also vest at the end of five years. Vesting is contingent upon continued employment by the Company. On December 31, 2005, 132,635 of restricted stock grants were not yet vested. The 2005 restricted shares were granted on two separate dates and had market values of \$31.23 and \$31.06, respectively, at the date of grant. The 2004 shares had market values of \$27.97, \$27.99 and \$29.54 and the 2003 shares granted had a market value of \$22.36. Compensation expense related to restricted stock grants totaled approximately \$731,000 for 2005, \$679,000 for

2004, and \$556,000 for 2003. The remaining unearned compensation of \$2.3 million is being amortized over the life of the respective grants.

In March 2005, the stockholders of the Company approved the Hancock Holding Company 2005 Long-Term Incentive Plan. The Plan is designed to enable employees and directors to obtain a proprietary interest in the Company and to attract and retain outstanding personnel. The Plan provides for the issuance of awards up to an aggregate of 5,000,000 shares of the Company's Common Stock. Awards may be in the form of incentive stock options. The number of awards granted in any calendar year is limited to 2% of the outstanding Company Common Stock as reported in the Company's most recent Annual Report on form 10-K for the fiscal year ending, immediately prior to that Plan year.

#### NOTE 16 – NET INCOME PER COMMON SHARE

Following is a summary of the information used in the computation of earnings per common share (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net earnings - used in computation of diluted earnings per common share	\$ 54,032	\$ 61,704	\$ 54,955
Preferred dividend requirement	-	-	2,653
Net earnings available to common stockholders - used in computation of basic earnings per common share	<u>\$ 54,032</u>	<u>\$ 61,704</u>	<u>\$ 52,302</u>
Weighted average number of common shares outstanding - used in computation of basic earnings per common share	32,365	32,390	30,714
Effect of dilutive securities			
Stock options	601	556	486
Convertible preferred stock	-	106	2,210
Weighted average number of common shares outstanding plus effect of dilutive securities - used in computation of diluted earnings per common share	<u>32,966</u>	<u>33,052</u>	<u>33,410</u>

The Company had no anti-dilutive options in 2004 or 2003.

#### NOTE 17 - DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

**Cash, Short-Term Investments and Federal Funds Sold** - For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

**Securities** - Estimated fair values for securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on market prices of comparable instruments.

**Loans, Net of Unearned Income** - The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans with the same remaining maturities.

**Accrued Interest Receivable and Accrued Interest Payable** - The carrying amounts are a reasonable estimate of their fair values.

**Deposits** - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

**Federal Funds Purchased** - For these short-term liabilities, the carrying amount is a reasonable estimate of fair value.

**Securities Sold under Agreements to Repurchase and Federal Funds Purchased** - For these short-term liabilities, the carrying amount is a reasonable estimate of fair value.

**Short-Term Notes** - For short-term notes, the carrying amount is a reasonable estimate of fair value.

**Long-Term Notes** - Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. The fair value is estimated by discounting the future contractual cash flows using current market rates at which similar Notes over the same remaining term could be obtained.

**Commitments** - The fair value of loan commitments and letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. The fees associated with these financial instruments, or the estimated cost to terminate, as applicable are immaterial.

The estimated fair values of the Company's financial instruments were as follows (in thousands):

	December 31,			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, interest-bearing deposits and federal funds sold	\$ 681,330	\$ 681,330	\$ 306,058	\$ 306,058
Securities available for sale	1,959,261	1,959,261	1,114,468	1,114,468
Securities held to maturity	-	-	187,901	193,578
Loans, net of unearned income	2,989,186	3,079,084	2,748,560	2,901,561
Accrued interest receivable	35,046	35,046	23,783	23,783
Financial liabilities:				
Deposits	\$ 4,989,820	\$ 4,890,632	\$ 3,797,945	\$ 3,797,958
Federal funds purchased	1,475	1,475	800	800
Securities sold under agreements to repurchase	250,807	250,807	195,478	195,478
Long-term notes	50,266	50,566	50,273	52,383
Accrued interest payable	5,881	5,881	5,380	5,380

#### NOTE 18 - OFF-BALANCE SHEET RISK

In the normal course of business, the Company enters into financial instruments, such as commitments to extend credit and letters of credit, to meet the financing needs of its customers. Such instruments are not reflected in the accompanying consolidated financial statements until they are funded and involve, to varying degrees, elements of credit risk not reflected in the consolidated balance sheets. The contract amounts of these instruments reflect the Company's exposure to credit loss in the event of non-performance by the other party on whose behalf the instrument has been issued. The Company undertakes the same credit evaluation in making commitments and conditional obligations as it does for on-balance sheet instruments and may require collateral or other credit support for off-balance sheet financial instruments. These obligations are summarized below (in thousands):

	December 31,	
	2005	2004
Commitments to extend credit	\$ 550,948	\$ 554,870
Letters of credit	57,427	44,241

Approximately \$348.9 million and \$319.7 million of commitments to extend credit at December 31, 2005 and 2004, respectively, were at variable rates and the remainder was at fixed rates. A commitment to extend credit is an agreement to lend to a customer as long as the conditions established in the agreement have been satisfied. A commitment to extend credit generally has a fixed expiration date or other termination clauses and may require payment of a fee by the borrower. Since commitments often expire without being fully drawn, the total commitment amounts do not necessarily represent future cash requirements of the Company. The Company continually evaluates each customer's credit worthiness on a case-by-case basis. Occasionally, a credit evaluation of a customer requesting a commitment to extend credit results in the Company obtaining collateral to support the obligation.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing a letter of credit is essentially the same as that involved in extending a loan. The Company accounts for these commitments under the provisions of the FASB Interpretation No. 45, *Guarantees of Indebtedness of Others*. The liability associated with letters of credit is not material to the Company's consolidated financial statements. Letters of credit are supported by collateral sufficient to cover any draw on the letter that would result in an outstanding loan.

## NOTE 19 – COMMITMENTS AND CONTINGENCIES

The Company is party to various legal proceedings arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, all such matters are adequately covered by insurance or, if not so covered, are not expected to have a material adverse effect on the financial statements of the Company.

At December 31, 2005, the Company carried an accrued liability of \$1.2 million in connection with invoices received for clean-up activity at the Company's headquarters in Gulfport, Mississippi. Payment is pending adequate documentation and verification.

Future minimum lease payments for all non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2005:

2006	\$ 4,495
2007	2,645
2008	2,047
2009	1,829
2010	1,620
thereafter	4,993
	<u>\$ 17,629</u>

## NOTE 20 - SUPPLEMENTAL INFORMATION

The following is selected supplemental information (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other non-interest income:			
Income from bank owned life insurance	\$ 3,449	\$ 3,466	\$ 1,165
Outsourced check income	1,345	632	488
Option income on real estate transaction	1,145	-	-
Safety deposit box income	807	836	870
Appraisal fee income	694	686	731
Other	4,942	3,374	3,837
	<u>\$ 12,382</u>	<u>\$ 8,994</u>	<u>\$ 7,091</u>
Other non-interest expense:			
Postage	\$ 3,780	\$ 4,199	\$ 3,972
Communication	4,040	3,953	4,381
Data processing	7,805	7,618	7,158
Professional fees	10,429	8,322	3,718
Taxes and licenses	3,607	1,699	2,907
Printing and supplies	1,787	1,702	1,724
Marketing	5,232	4,292	4,381
Other fees	2,849	2,826	2,790
Miscellaneous expense	8,578	5,186	1,168
Other expense	6,605	7,221	7,069
	<u>\$ 54,712</u>	<u>\$ 47,018</u>	<u>\$ 39,268</u>

## NOTE 21 - SEGMENT REPORTING

The Company's primary segments are geographically divided into the Mississippi (MS), Louisiana (LA) and Florida (FL) markets. Each segment offers the same products and services but is managed separately due to different pricing, product demand and consumer markets. The three segments offer commercial, consumer and mortgage loans and deposit services. In the second table, the column "Other" includes additional consolidated subsidiaries of the Company: Hancock Mortgage Corporation, Hancock Investment Services, Inc., Hancock Insurance Agency, Inc., Harrison Finance Company, Magna Insurance Company and three real estate corporations owning land and buildings that house bank branches and other facilities. Following is selected information for the Company's segments (in thousands):

	Years Ended December 31,					
	2005					
	MS	LA	FL	Other	Eliminations	Consolidated
Interest income	\$ 140,583	\$ 109,248	\$ 6,563	\$ 13,136	\$ (5,899)	\$ 263,631
Interest expense	45,392	33,184	1,796	-	(5,553)	74,819
Net interest income	95,191	76,064	4,767	13,136	(346)	188,812
Provision for loan losses	24,744	14,836	493	2,562	-	42,635
Non-interest income	46,197	28,061	476	23,670	(135)	98,269
Depreciation and amortization	5,299	2,467	454	497	-	8,717
Other non-interest expense	73,725	56,065	4,349	28,820	(133)	162,826
Earnings before income taxes	37,620	30,757	(53)	4,927	(348)	72,903
Income tax expense (benefit)	16,673	(191)	170	2,260	(41)	18,871
Net earnings	\$ 20,947	\$ 30,948	\$ (223)	\$ 2,667	\$ (307)	\$ 54,032

	Years Ended December 31,					
	2004					
	MS	LA	FL	Other	Eliminations	Consolidated
Interest income	\$ 120,197	\$ 91,148	\$ 3,089	\$ 14,673	\$ (2,333)	\$ 226,774
Interest expense	37,953	20,385	922	65	(2,055)	57,270
Net interest income	82,244	70,763	2,167	14,608	(278)	169,504
Provision for loan losses	5,564	6,429	928	3,616	-	16,537
Non-interest income	39,894	33,255	445	19,084	(2,397)	90,281
Depreciation and amortization	5,879	2,648	67	563	-	9,157
Other non-interest expense	67,370	51,348	3,047	24,157	(128)	145,794
Earnings before income taxes	43,325	43,593	(1,430)	5,356	(2,547)	88,297
Income tax expense (benefit)	12,808	13,213	(547)	1,913	(794)	26,593
Net earnings	\$ 30,517	\$ 30,380	\$ (883)	\$ 3,443	\$ (1,753)	\$ 61,704

	Years Ended December 31,					
	2003					
	MS	LA	FL	Other	Eliminations	Consolidated
Interest income	\$ 121,664	\$ 83,368	\$ -	\$ 13,648	\$ (531)	\$ 218,149
Interest expense	38,982	19,301	-	(2)	(320)	57,961
Net interest income	82,682	64,067	-	13,650	(211)	160,188
Provision for loan losses	7,385	5,720	-	2,049	-	15,154
Non-interest income	37,497	26,725	-	10,563	(29)	74,756
Depreciation and amortization	6,335	3,053	-	494	-	9,882
Other non-interest expense	64,358	51,493	-	14,504	(29)	130,326
Earnings before income taxes	42,101	30,526	-	7,166	(211)	79,582
Income tax expense	12,780	9,226	-	2,621	-	24,627
Net earnings	\$ 29,321	\$ 21,300	\$ -	\$ 4,545	\$ (211)	\$ 54,955

	<b>At and For Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Net Interest Income:</b>			
MS	\$ 95,191	\$ 82,244	\$ 82,682
LA	76,064	70,763	64,067
FL	4,767	2,167	-
Other	13,136	14,608	13,650
Eliminations	(346)	(278)	(211)
Consolidated net interest income	<u>\$ 188,812</u>	<u>\$ 169,504</u>	<u>\$ 160,188</u>
<b>Net Earnings:</b>			
MS	\$ 20,947	\$ 30,517	\$ 29,321
LA	30,948	30,380	21,300
FL	(223)	(883)	-
Other	2,667	3,443	4,545
Eliminations	(307)	(1,753)	(211)
Consolidated net earnings	<u>\$ 54,032</u>	<u>\$ 61,704</u>	<u>\$ 54,955</u>
<b>Assets:</b>			
MS	\$ 3,546,748	\$ 2,628,221	\$ 2,471,918
LA	2,138,894	1,895,832	1,673,973
FL	122,845	88,070	-
Other	606,740	609,309	497,651
Eliminations	(465,040)	(556,706)	(493,184)
Consolidated assets	<u>\$ 5,950,187</u>	<u>\$ 4,664,726</u>	<u>\$ 4,150,358</u>

The Company allocated administrative charges between its Louisiana, Florida and Other segments and its Mississippi segment and the Parent Company. This allocation was based on an analysis of costs for 2005. The administrative charges allocated to the Louisiana segment were \$11.55 million in 2005, \$10.87 million in 2004 and \$14.08 million in 2003. The Florida segment received \$200,000 in allocated administrative charges in 2005. The Other segments allocated charges were \$150,000 in 2005. No charges were allocated to the Florida or Other segments in 2004 or 2003. The aforementioned administrative charges were allocated from the Mississippi segment (\$11.60 million in 2005, \$10.75 million in 2004 and \$11.33 million in 2003). Subsidiaries of the Mississippi segment were included in the cost allocation process beginning in 2004. Administrative charges allocated from the Parent Company were \$300,000 in 2005, \$124,000 in 2004 and \$2.75 million in 2003.

Goodwill and other intangible assets assigned to the Mississippi segment totaled approximately \$15.9 million, of which \$12.1 million represented goodwill and \$2.2 million represented core deposit intangibles at December 31, 2005. At December 31, 2004, goodwill and other intangible assets assigned to the Mississippi segment totaled approximately \$14.9 million, of which \$12.1 million represented goodwill and \$2.8 million represented core deposit intangibles. The related core deposit amortization was approximately \$518,000 in 2005, \$666,000 in 2004 and \$712,000 in 2003.

Goodwill and other intangible assets assigned to the Louisiana segment totaled approximately \$37.0 million, of which \$32.0 million represented goodwill and \$5.0 million represented core deposit intangibles at December 31, 2005. Goodwill and other intangible assets assigned to the Louisiana segment totaled approximately \$38.0 million, of which \$32.0 million represented goodwill and \$6.0 million represented core deposit intangibles, at December 31, 2004. The related core deposit amortization was approximately \$977,000 in 2005, \$951,000 in 2004 and \$436,000 in 2003.

Goodwill and other intangible assets assigned to the Florida segment totaled approximately \$12.3 million, of which \$11.3 million represented goodwill and \$1.0 million represented core deposit intangibles, at December 31, 2005. The related core deposit amortization was approximately \$160,000 in 2005. Goodwill and other intangible assets assigned to the Florida segment totaled approximately \$12.4 million, of which \$11.3 million represented goodwill and \$1.0 million represented core deposit intangibles, at December 31, 2004. The related core deposit amortization was approximately \$149,000 in 2004.

Other intangible assets are also assigned to subsidiaries that are included in the "Other" category in the table above and totaled \$7.0 million at December 31, 2005. Those intangibles consist of goodwill, \$6.0 million; non-compete agreements, \$228,000; and the value of insurance expirations, approximately \$800,000. On July 1, 2005, Hancock Insurance Agency acquired 100% of the stock of J Everett Eaves, Inc., a well-known commercial insurance agency operating in the New Orleans, Louisiana market. The transaction resulted in the recording of intangibles of approximately \$4.7 million. Upon completion of an intangibles valuation to be performed by an independent third party, the intangibles will be reallocated among goodwill (its current classification), value of insurance expirations and non-compete agreements. The latter two categories are amortizable intangibles and will be assigned appropriate lives based on valuations.

An intangibles valuation relating to the intangibles recorded in the acquisition of Ross King Walker, Inc. in late 2004 was completed during 2005. The reallocation of intangibles resulted in the recording of three separate categories of intangible assets: value of insurance expirations, \$1.1 million; non-compete agreements, \$0.2 million and goodwill of \$1.3 million. The value of insurance expirations and non-compete agreement assets are being amortized over 10 year and 5 year lives, respectively, on an

accelerated basis. The related amortization related to the non-compete agreements and the value of insurance expirations was approximately \$540,000 in 2005, and approximately \$179,000 in 2004.

None of the segments recorded amortization of goodwill during 2005, 2004 and 2003 in accordance with SFAS No. 142 as discussed in Note 1. The segments performed a fair value based impairment test on its goodwill and determined that the fair value exceeded the recorded value at December 2005, 2004 and 2003. No impairment loss, therefore, was recorded.

## NOTE 22 – CONDENSED PARENT COMPANY INFORMATION

The following condensed financial information reflects the accounts and transactions of Hancock Holding Company (parent company only) for the dates indicated (in thousands):

### Condensed Balance Sheets

	December 31,	
	2005	2004
<b>Assets:</b>		
Cash	\$ 3,161	\$ 3,783
Investment in bank subsidiaries	461,375	451,849
Investment in non-bank subsidiaries	12,757	11,254
Due from subsidiaries and other assets	2,342	2,403
	<u>\$ 479,635</u>	<u>\$ 469,289</u>
<b>Liabilities and Stockholders' Equity:</b>		
Due to subsidiaries	\$ 2,194	\$ 4,675
Other liabilities	26	32
Common stockholders' equity	477,415	464,582
	<u>\$ 479,635</u>	<u>\$ 469,289</u>

### Condensed Statements of Earnings

	Years Ended December 31,		
	2005	2004	2003
<b>Operating Income</b>			
From subsidiaries			
Dividends received from bank subsidiaries	\$ 34,900	\$ 45,506	\$ 42,501
Dividends received from non-bank subsidiaries	-	10,000	-
Equity in earnings of subsidiaries greater than dividends received	20,702	6,484	12,098
Other operating income	-	-	356
Total operating income	<u>55,602</u>	<u>61,990</u>	<u>54,955</u>
<b>Operating expense</b>			
Other operating expense	(1,570)	(286)	-
Total operating expense	<u>(1,570)</u>	<u>(286)</u>	<u>-</u>
<b>Net earnings</b>	54,032	61,704	54,955
Preferred dividends	-	-	(2,653)
<b>Net earnings available to common stockholders</b>	<u>\$ 54,032</u>	<u>\$ 61,704</u>	<u>\$ 52,302</u>

### Condensed Statements of Cash Flows

	Years Ended December 31,		
	2005	2004	2003
Cash flows from operating activities - principally dividends received from subsidiaries	\$ 50,670	\$ 60,411	\$ 36,854
Cash flows from investing activities:			
Business acquisitions	-	(4,533)	(19,400)
Infusion of capital to subsidiary	(20,000)	(15,949)	-
Net cash used by investing activities	<u>(20,000)</u>	<u>(20,482)</u>	<u>(19,400)</u>
Cash flows from financing activities:			
(Repayments) advances of short-term notes	-	(9,400)	9,400
Dividends paid to stockholders	(23,416)	(18,977)	(16,207)
Stock transactions, net	(7,876)	(8,919)	(12,487)
Net cash used by financing activities	<u>(31,292)</u>	<u>(37,296)</u>	<u>(19,294)</u>
Net increase (decrease) in cash	(622)	2,633	(1,840)
Cash, beginning	3,783	1,150	2,990
Cash, ending	<u>\$ 3,161</u>	<u>\$ 3,783</u>	<u>\$ 1,150</u>

# HANCOCK HOLDING COMPANY AND SUBSIDIARIES

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

### Purpose

The purpose of this discussion and analysis is to focus on significant changes and events in the financial condition and results of operations of Hancock Holding Company and its subsidiaries during 2005 and selected prior periods. This discussion and analysis is intended to highlight and supplement data and information presented elsewhere in this report, including the preceding consolidated financial statements and related notes. Certain information relating to prior years has been reclassified to conform to the current year's presentation.

### Forward-Looking Statements

Congress passed the Private Securities Litigation Act of 1995 in an effort to encourage corporations to provide information about a company's anticipated future financial performance. This act provides a safe harbor for such disclosure, which protects the company from unwarranted litigation, if actual results are different from Management expectations. This discussion and analysis contains forward-looking statements and reflects management's current views and estimates of future economic circumstances, industry conditions, Company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties, which could cause the Company's actual results and experience to differ from the anticipated results and expectations, expressed in such forward-looking statements.

### Critical Accounting Policies

The accounting principles followed by the Company and the methods for applying these principles conform with accounting principles generally accepted in the United States of America and with general practices followed by the banking industry. Certain critical accounting policies affect the more significant judgements and estimates used in the preparation of the consolidated financial statements.

The Company's most critical accounting policy relates to its allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make payments. If the financial condition of its borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the estimates of the allowance would be updated, and additional provisions for loan losses may be required.

The allowance for loan losses is a valuation account available to absorb losses inherent in the loan portfolio. All loan losses are charged to the allowance when the loss actually occurs; recoveries are credited to the allowance for loan losses at the time of receipt. Periodically, Management estimates the probable level of losses to determine whether the allowance is adequate to absorb reasonably foreseeable, anticipated losses in the existing portfolio based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions. On August 29, 2005 Hurricane Katrina struck the coasts of Mississippi and Louisiana causing extensive damage to coastal communities in which the Company conducts business. The Company established a specific allowance for estimated credit losses related to the impact of Hurricane Katrina on the Company's loan portfolio. In establishing the special allowance for the loss exposure created by Hurricane Katrina, commercial, direct installment and home equity loans were segmented by division and loss factors applied based on the estimated percentage of loans affected by the storm.

The allowance for loan losses is increased by charges to expense and decreased by loan charge-offs (net of recoveries). See Note 1 in the Notes to consolidated financial statements for discussion of other accounting policies.

**Recent Accounting Pronouncements**—In October 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Accounting Position (SOP) 03-03, which addresses accounting for differences between contractual cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. This SOP prohibits "carry over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. The Company adopted this SOP during the first quarter of 2005 as required and its effect on the consolidated financial statements, to date, has not been material.

The guidance in Emerging Issues Task Force (EITF) 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, was originally effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of the Issue was delayed by FASB Staff Position (FSP) EITF Issue 03-1-1, *The Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1*, posted on September 30, 2004. The disclosure requirements continue to be effective and have been implemented by the Company. In November 2005, the FASB issued Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which amends SFAS No. 115, *Accounting for*

*Certain Investments in Debt and Equity Securities*, and No. 124, *Accounting for Certain Investments Held by Not for Profit Organizations* and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. This FSP addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. FSP FAS 115-1 and FAS 124-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP is effective for reporting periods beginning after December 15, 2005. The Company does not expect the adoption of FAS 115-1 and FAS 124-1 will have a material impact on its financial condition or results of operations.

On December 16, 2004, the FASB published SFAS No. 123(R), *Share-Based Payment*. This Statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. It will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value of the equity or liability instruments issued. The Company will adopt SFAS No.123(R) effective January 1, 2006. The estimated effect on earnings for 2006 is an increase in compensation expense of \$900,000, or a reduction in diluted earnings per share of \$0.03.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This Statement is a replacement of APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine period-specific effects of an accounting change on one or more individual prior periods presented. Then the new accounting principle is applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. Further, the accounting principle is to be applied prospectively from the earliest date when it is impracticable to determine the effect to all prior periods. This Statement is effective for the Company as of January 1, 2006. Adoption of this statement could have an impact if there are future voluntary accounting changes and correction of errors.

## **Executive Overview**

Diluted earnings per common share for 2005 were \$1.64 on earnings of \$54.0 million. Diluted earnings per common share were down 12% and net earnings decreased by 12% as compared to 2004. The August 29, 2005 impact of Hurricane Katrina on the Gulf Coast had a significant effect on the Company's earnings. Excluding the impact of Hurricane Katrina, the Company continued its positive earnings momentum through 2005. The Company continues to be focused on strategic goals of serving customers throughout the Gulf South and earning a superior return for its stockholders.

The Company's management team continues to evaluate opportunities for growth and expansion as evidenced by entrance into the New Orleans insurance market with the acquisition of J. Everett Eaves on July 1, 2005. Strategic management of earning assets and deposit mix, continued focus on efficiency and credit quality, and improved non-interest income drove the increase (excluding the impact of Hurricane Katrina) in operating earnings in 2005.

## **Summary**

The Company reported net earnings of \$54.0 million in 2005, a decrease of \$7.7 million, or 12%, from the \$61.7 million earned in 2004. Diluted earnings per common share were \$1.64 in 2005, a decrease of \$0.23, or 12%, from 2004's \$1.87. The 2005 net earnings were unfavorably impacted by the effects of Hurricane Katrina's landfall along the coastal areas of Louisiana and Mississippi. Storm related items negatively impacted pretax earnings by \$32.4 million. Table 1 compares net income and diluted earnings per common share for 2005 and 2004, excluding the 2005 impact of Hurricane Katrina and the 2004 gains on sale of branches and credit card merchant services business.

**TABLE 1.****EFFECT OF STORM-RELATED ITEMS AND GAINS ON SALE OF BRANCHES & CREDIT CARD MERCHANT SERVICES**

<i>(dollars in thousand, except per share data)</i>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Reported Earnings (GAAP)	<b>\$54,032</b>	<b>\$61,704</b>	<b>\$54,955</b>
Plus tax-effected* estimated credit losses	<b>22,881</b>	-	-
Less tax-effected* gain on insurance, net of direct expenses	<b>4,280</b>	-	-
Plus tax-effected* waived fees	<b>2,460</b>	-	-
Less tax-effected* gain on sale of branches	-	<b>1,468</b>	-
Less tax-effected* gain on sale of credit card merchant services business	-	<b>1,950</b>	-
<b>Adjusted Earnings (Non GAAP)</b>	<b>\$75,093</b>	<b>\$58,286</b>	<b>\$54,955</b>
Reported (GAAP) Diluted Earnings per Share	<b>\$1.64</b>	<b>\$1.87</b>	<b>\$1.64</b>
Plus tax-effected* estimated credit losses	<b>0.69</b>	-	-
Less tax-effected* gain on insurance, net of direct expenses	<b>0.13</b>	-	-
Plus tax-effected* waived fees	<b>0.08</b>	-	-
Less tax-effected* gain on sale of branches	-	<b>0.04</b>	-
Less tax-effected* gain on sale of credit card merchant services business	-	<b>0.06</b>	-
<b>Adjusted (Non GAAP) Diluted Earnings per Share</b>	<b>\$2.28</b>	<b>\$1.77</b>	<b>\$1.64</b>

\*Marginal federal tax income rate of 35%.

Excluding the impact of the aforementioned items in Table 1, net income of \$75.1 million was \$16.8 million, or 29%, higher than the \$58.3 million earned in 2004. The key components of 2005's earnings performance follow:

- Net interest income, on a tax-equivalent (te)\* basis, increased \$19.4 million, or 11%, from 2004 to 2005 due to an increase of \$475 million, or 12%, in average earning assets. Average loan growth of \$283 million, or 11% was funded primarily with deposit growth resulting from deposit inflows related to the aftermath of Hurricane Katrina that were favorable to the Company's funding mix. The expansion of the Company's earning asset base, as well as improvement in the earning asset mix, were the main factors behind the increase in net interest income (te) compared to a year ago.
- Non-interest income, exclusive of the storm-related items and waived fees in 2005, gain on sale of branches, credit card merchant services business in 2004 and securities transactions grew \$6.9 million, or 8%, from 2004 to 2005. The most considerable increases in non-interest income, when comparing 2004 to 2005, were experienced in insurance commission fees (\$7.9 million or 86%), investment & annuity fees (\$2.8 million or 121%) and other fees and income (\$3.4 million or 38%).
- Non-interest expense increased \$16.6 million, or 11%, from 2004 to 2005. Significant increases were reflected in personnel expense (\$7.8 million or 9%), legal and professional services (\$2.1 million or 25%) and other operating expenses (\$3.5 million or 26%).
- The Company provided \$42.6 million for loan losses in 2005, compared to \$16.5 million for 2004 – an increase of \$26.1 million, or 158%. The increase in the provision for loan losses was primarily due to the impact of establishing a \$35.2 million storm-related provision for credit losses due to Hurricane Katrina.
- Income taxes decreased \$7.7 million primarily due to a lower level of taxable income in 2005 and certain storm-related credits.

\*Tax-equivalent and tax-effected (te) amounts are calculated using a marginal federal tax income tax rate of 35%.

**Loans and Allowance for Loan Losses**

Total average loans increased \$283 million, or 11%, in 2005 compared to an increase of \$361 million, or 16%, in 2004. Table 2 shows average loans for a three-year period.

**TABLE 2. AVERAGE LOANS**

<i>(dollars in thousands)</i>	<b>2005</b>			<b>2004</b>			<b>2003</b>		
	<b>Balance</b>	<b>TE Yield</b>	<b>Mix</b>	<b>Balance</b>	<b>TE Yield</b>	<b>Mix</b>	<b>Balance</b>	<b>TE Yield</b>	<b>Mix</b>
Commercial & R.E. Loans	<b>\$1,565,369</b>	<b>6.40%</b>	<b>54.3%</b>	<b>\$1,372,014</b>	<b>5.65%</b>	<b>52.8%</b>	<b>\$1,140,288</b>	<b>5.85%</b>	<b>50.9%</b>
Mortgage loans	<b>424,654</b>	<b>5.56%</b>	<b>14.7%</b>	<b>392,028</b>	<b>5.68%</b>	<b>15.1%</b>	<b>336,603</b>	<b>6.09%</b>	<b>15.0%</b>
Direct consumer loans	<b>501,677</b>	<b>7.51%</b>	<b>17.4%</b>	<b>489,040</b>	<b>7.25%</b>	<b>18.8%</b>	<b>494,311</b>	<b>7.88%</b>	<b>22.1%</b>
Indirect consumer loans	<b>328,679</b>	<b>5.91%</b>	<b>11.4%</b>	<b>288,005</b>	<b>6.03%</b>	<b>11.1%</b>	<b>216,080</b>	<b>7.00%</b>	<b>9.7%</b>
Finance company loans	<b>62,640</b>	<b>19.03%</b>	<b>2.2%</b>	<b>58,474</b>	<b>18.88%</b>	<b>2.2%</b>	<b>50,963</b>	<b>18.66%</b>	<b>2.3%</b>
Total average loans (net of unearned)	<b>\$2,883,020</b>	<b>6.99%</b>	<b>100.0%</b>	<b>\$2,599,561</b>	<b>6.65%</b>	<b>100.0%</b>	<b>\$2,238,245</b>	<b>7.23%</b>	<b>100.0%</b>

The Company experienced an overall increase in loan growth that affected all loan categories as its efforts to generate loan volume continued.

As indicated by Table 2, average commercial and real estate loans increased \$193 million, or 14%, from 2004. Included in this category are commercial real estate loans, which are secured by properties, used in commercial or industrial operations. The Company originates commercial and real estate loans to a wide variety of customers in many different industries and, as such, no single industry concentrations existed at December 31, 2005.

Average mortgage loans of \$425 million were \$33 million, or 8%, higher than in 2004. The majority of the growth in 2005 for this category was in retail mortgage loans. The Company originates both fixed-rate and adjustable-rate mortgage loans. Certain types of mortgage loans are sold in the secondary mortgage market, while the Company retains other types. The Company also originates home equity loans. This product offers customers the opportunity to leverage rising home values and equity to obtain tax-advantaged consumer financing.

Direct consumer loans, which include loans and revolving lines of credit made directly to consumers, were up \$13 million, or 3%, from 2004. The Company also originates indirect consumer loans, which consist primarily of consumer loans originated through third parties such as automobile dealers or other point-of-sale channels. Average indirect consumer loans of \$329 million for 2005 were up \$41 million, or 14%, from 2004. The Company owns a finance company subsidiary, which originates both direct and indirect consumer loans. Finance company loans increased approximately \$4 million, or 7%, at December 31, 2005, compared to the subsidiary's outstanding loans on December 31, 2004. The loan growth in the Finance company was mainly due to continued growth in direct consumer loans.

**TABLE 3. SUMMARY OF ACTIVITY IN THE ALLOWANCE FOR LOAN LOSSES**

<i>(dollars in thousands)</i>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Balance at the beginning of year	<b>\$40,682</b>	<b>\$36,750</b>	<b>\$34,740</b>	<b>\$34,417</b>	<b>\$28,604</b>
Allowance of acquired banks	-	-	-	<b>(400)</b>	<b>8,342</b>
Provision for loan losses					
charged to operations	<b>42,635</b>	<b>16,537</b>	<b>15,154</b>	<b>18,495</b>	<b>9,082</b>
Loans charged-off to the allowance					
Commercial, real estate & mortgage	<b>4,273</b>	<b>6,045</b>	<b>5,232</b>	<b>9,262</b>	<b>6,445</b>
Direct and indirect consumer	<b>7,052</b>	<b>9,335</b>	<b>9,626</b>	<b>9,384</b>	<b>6,324</b>
Demand deposit accounts	<b>4,486</b>	<b>5,048</b>	<b>4,685</b>	<b>4,907</b>	<b>3,529</b>
<b>Total gross charge-offs</b>	<b>15,811</b>	<b>20,428</b>	<b>19,543</b>	<b>23,553</b>	<b>16,298</b>
Recoveries of loans previously charged-off					
Commercial, real estate & mortgage	<b>2,794</b>	<b>2,136</b>	<b>1,296</b>	<b>646</b>	<b>322</b>
Direct and indirect consumer	<b>2,043</b>	<b>2,231</b>	<b>2,117</b>	<b>2,071</b>	<b>2,026</b>
Demand deposit accounts	<b>2,215</b>	<b>3,456</b>	<b>2,986</b>	<b>3,064</b>	<b>2,339</b>
<b>Total recoveries</b>	<b>7,052</b>	<b>7,823</b>	<b>6,399</b>	<b>5,781</b>	<b>4,687</b>
<b>Net charge-offs</b>	<b>8,759</b>	<b>12,605</b>	<b>13,144</b>	<b>17,772</b>	<b>11,611</b>
<b>Balance at the end of year</b>	<b>\$74,558</b>	<b>\$40,682</b>	<b>\$36,750</b>	<b>\$34,740</b>	<b>\$34,417</b>
Storm-related net charge-offs (included above)	<b>\$2,350</b>	-	-	-	-
Storm-related allowance for loan losses (included above)	<b>\$32,851</b>	-	-	-	-
Ratios					
Gross charge-offs to average loans	<b>0.55%</b>	<b>0.79%</b>	<b>0.87%</b>	<b>1.20%</b>	<b>0.91%</b>
Recoveries to average loans	<b>0.24%</b>	<b>0.30%</b>	<b>0.29%</b>	<b>0.29%</b>	<b>0.26%</b>
Net charge-offs to average loans	<b>0.30%</b>	<b>0.48%</b>	<b>0.59%</b>	<b>0.91%</b>	<b>0.65%</b>
Allowance for loan losses to year end loans	<b>2.49%</b>	<b>1.48%</b>	<b>1.50%</b>	<b>1.65%</b>	<b>1.82%</b>

At December 31, 2005, the allowance for loan losses was \$74.6 million, or 2.49%, of year-end loans, compared to \$40.7 million, or 1.48%, of year-end loans for 2004. The Company's management was presented with the challenge of developing estimates for the impact of Hurricane Katrina on the Company's credit quality. As such, in the immediate aftermath of the storm, the Company's Chief Credit Policy Officer undertook a detailed process to review the impact of the storm on its credit customers and to develop a process to estimate the Company's credit losses. In establishing the special allowance for the loss exposure created by Hurricane Katrina, commercial and direct installment loans were segmented by division and loss factors applied based on the estimated percentage of loans affected by the storm. The result of the aforementioned credit review process was that, on September 30, 2005, the Company established a \$35.2 million specific allowance for estimated credit losses related to the impact of Hurricane Katrina on its loan portfolio. The Company is continuously reviewing the adequacy of the special storm-related allowance and views the current level to be adequate and, as such, expects no material deviations once all storm-related net charge-offs are known. Net charge-offs amounted to \$8.8 million in 2005, as compared to \$12.6 million in 2004. The \$3.8 million decrease in net charge-offs from 2004 was related to decreases in each net charge-

off category. The Company recorded storm-related net charge-offs of \$2.4 million that were charged directly against the storm-related allowance of \$35.2 million. As a result, the storm-related allowance was reduced by \$2.4 million and as of December 31, 2005 stands at \$32.9 million. Overall, the allowance for loan losses was 196% of non-performing loans and accruing loans 90 days past due at year-end 2005, compared to 252% at year-end 2004. Management utilizes several quantitative methodologies for determining the adequacy of the allowance for loan losses and is of the opinion that the allowance at December 31, 2005 is adequate. Table 3 presents the activity in the allowance for loan losses over the past 5 years.

Non-performing assets consists of loans accounted for on a non-accrual basis, restructured loans and foreclosed assets. Table 4 presents information related to non-performing assets for the five years ended December 31, 2005. Total non-performing assets at December 31, 2005 were \$12.5 million, an increase of \$1.5 million, or 14%, from December 31, 2004. Loans that are over 90 days past due but still accruing were \$25.6 million at December 31, 2005. This compares to \$5.2 million at December 31, 2004. This increase was due primarily to accommodations granted to certain loan customers related to Hurricane Katrina. In the aftermath of Hurricane Katrina, the Company recognized that many of its credit customers (mostly residential mortgage holders) were in a position where time would be needed to recover sufficiently from the storm before they could resume payments on their loans. Accommodations in the form of loan payment extensions (most for 90 days) were granted on a customer by customer basis. Efforts on the part of Management to reduce the levels of non-performing assets, as well as past due loans, will continue in 2006.

**TABLE 4. NON-PERFORMING ASSETS**

<i>(dollars in thousands)</i>	<b>December 31</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Loans accounted for on a non-accrual basis	<b>\$10,617</b>	<b>\$7,480</b>	<b>\$12,161</b>	<b>\$11,870</b>	<b>\$17,328</b>
Restructured loans	-	-	-	-	-
Total non-performing loans	<b>10,617</b>	<b>7,480</b>	<b>12,161</b>	<b>11,870</b>	<b>17,328</b>
Foreclosed assets	<b>1,898</b>	<b>3,513</b>	<b>5,809</b>	<b>5,936</b>	<b>3,003</b>
Total non-performing assets	<b>\$12,515</b>	<b>\$10,993</b>	<b>\$17,970</b>	<b>\$17,806</b>	<b>\$20,331</b>
Loans 90 days past due still accruing	<b>\$25,622</b>	<b>\$5,160</b>	<b>\$3,682</b>	<b>\$6,407</b>	<b>\$12,591</b>
<b>Ratios</b>					
Non-performing assets to loans plus other real estate	<b>0.42%</b>	<b>0.40%</b>	<b>0.73%</b>	<b>0.84%</b>	<b>1.07%</b>
Allowance for loan losses to non-performing loans and accruing loans 90 days past due	<b>196%</b>	<b>252%</b>	<b>170%</b>	<b>143%</b>	<b>105%</b>
Loans 90 days past due still accruing to loans	<b>0.86%</b>	<b>0.19%</b>	<b>0.15%</b>	<b>0.30%</b>	<b>0.67%</b>

## Investment Securities

The Company's investment in securities was \$1.959 billion at December 31, 2005, compared to \$1.302 billion at December 31, 2004. Average investment securities were \$1.434 billion for 2005 as compared to \$1.345 billion for 2004.

The Company's general investment objective is to purchase securities that provide stable cash flows for liquidity purposes while limiting the amount of prepayment risk. Certain securities have been classified as available for sale based on Management's internal assessment of the portfolio after considering the Company's liquidity requirements and the portfolio's exposure to changes in market interest rates, portfolio prepayment activity and balance sheet strategy.

Specific to our municipal holdings in the hurricane impacted areas, any unrealized losses on these securities have also been determined to be temporary. Numerous factors have been considered, however; the ultimate effects of the hurricanes on local economies, and consequently on government revenues and short-term cash flows, are unknown at this time.

Also during 2005, securities classified as held to maturity in the portfolio of one of the Company's subsidiaries were sold. A determination was made that this action tainted the investment portfolio of the entire Company. As a result of this action and determination, all securities held by the Company have been reclassified to available for sale and the carrying value of those securities are adjusted to market as prescribed in Statement of Financial Accounting Standard (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

At December 31, 2005, the composition of the securities portfolio was 100% classified as available for sale and none were held to maturity. At December 31, 2004, these relative percentages were 86% available for sale and 14% held to maturity. The available-for-sale portfolio was \$1.959 billion at December 31, 2005.

The vast majority of securities in the Banks' portfolios are fixed rate and there were no investments in securities of a single issuer, other than U.S. Treasury and U.S. Government agency securities and mortgage-backed securities issued or guaranteed by U.S. government agencies that exceeded 10% of stockholders' equity. At December 31, 2005, the average life of the portfolio was 2.90 years with an effective duration of 2.26 and an average yield of 4.53%.

During 2005, the Company sold approximately \$133.7 million of securities from the available-for-sale portfolio at a pretax net securities loss of \$53,000. The Company recorded net securities gains during 2004 and 2003 of \$163,000 and \$1.7 million, respectively.

## Deposits and Other Borrowings

The Company's deposit base experienced significant growth since Hurricane Katrina impacted its market area. Deposits increased to \$4.990 billion at December 31, 2005 from \$3.798 billion at December 31, 2004, an increase of \$1.192 billion, or approximately 31%. The year-end deposit increase from 2004 to 2005 was primarily driven by non-interest bearing deposit growth of \$627.6 million and time deposit growth of \$564.3 million. Total average deposits increased by \$399 million, or 11%, from \$3.603 billion during 2004 to \$4.001 billion during 2005.

Over the course of 2005, the Company increased focus on multiple account, core deposit relationships and strategic placement of time deposit campaigns to stimulate overall deposit growth. The Company continues to keep as its highest priority continued customer demand for safety and liquidity of deposit products. Interest-bearing accounts, which include NOW accounts, money market investment accounts, savings accounts and time deposits increased more than \$226 million on an average basis during 2005. Additionally, non-interest-bearing deposits were up almost \$173 million for the period January through December 2005. The vast majority of the aforementioned net growth occurred as a result of deposit inflows from the impact of Hurricane Katrina, but the inflows were not limited to the immediate aftermath of the storm. The composition of deposit inflows since August 31, 2005 has been favorable to the Company's funding mix and consisted of 50% non-interest bearing demand accounts, 38% low cost interest-bearing transaction accounts and 12% time deposits.

Borrowings consist primarily of purchases of federal funds, sales of securities under repurchase agreements and borrowings from the FHLB. In total, borrowings were up over \$56.3 million from December 31, 2004 to December 31, 2005, driven primarily by an increase in customer repurchase agreements. Sales of securities under repurchase agreements increased \$55.3 million from year-end 2004, while borrowings from the FHLB were essentially flat as compared to 2004. Long-term notes consist primarily of \$50.0 million of advances from the FHLB, which were assumed through acquisition. The advance consist of two notes, \$40.0 million bears interest at 4.49% and is due January 21, 2009 and \$10.0 million bears interest at 4.75% and is due November 11, 2008. These advances are fixed rate, non-prepayable and are callable quarterly at the FHLB's option. These advances are collateralized by a blanket pledge of certain residential mortgage loans. At December 31, 2005, federal funds purchased totaled \$1.5 million while purchases of federal funds outstanding at year-end 2004 totaled \$800,000.

**TABLE 5. AVERAGE DEPOSITS**

	2005			2004			2003		
	Balance	Rate	Mix	Balance	Rate	Mix	Balance	Rate	Mix
Non-interest bearing demand deposits	\$822,733	0.00%	21%	\$650,106	0.00%	18%	\$604,448	0.00%	18%
NOW account deposits	893,521	1.55%	22%	798,286	1.01%	22%	694,681	1.14%	20%
Money market deposits	445,134	0.96%	11%	444,390	0.69%	12%	442,919	0.93%	13%
Savings deposits	521,502	0.70%	13%	562,976	0.79%	16%	541,748	1.04%	16%
Time deposits	1,318,536	3.47%	33%	1,146,976	3.23%	32%	1,123,409	3.25%	33%
Total average deposits	\$4,001,426		100%	\$3,602,734		100%	\$3,407,205		100%

## Liquidity

Liquidity management encompasses the Company's ability to ensure that funds are available to meet the cash flow requirements of depositors and borrowers, while also ensuring that the Company has adequate cash flow to meet its various needs, including operating, strategic and capital. Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would not be able to meet the needs of the communities in which it has a presence and serves. The parent holding company's principal source of liquidity is dividends from its subsidiary banks. Liquidity is required at the parent holding company level for the purpose of paying dividends to stockholders, servicing of any debt the Company may have, business combinations as well as general corporate expenses.

The post-Hurricane Katrina environment has significantly impacted the mix of the Company's balance sheet. Deposit inflows were at a significantly higher pace than loans. A sizeable portion of these dollars have been invested in the Company's securities portfolio. Prior to the storm the Company maintained solid liquidity levels; since that time, Management has handled the excess liquidity by maintaining existing strategies for safety and soundness. Management has sought to control the liquidity risk from this movement by laddering securities portfolio investments across overnight Fed Funds Sold, U.S. Agency discount notes, and short duration bullet maturity U.S. Agency bonds.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments, maturities of investment securities and occasional sales of various assets. Short-term investments such as federal funds sold, securities purchased under agreements to resell and maturing interest-bearing deposits with other banks are additional sources of liquidity funding. As of December 31, 2005 and 2004, securities that are not pledged and available for liquidity purposes, or free securities stood at 41.80%, or \$827.95 million, and 28.0%, or \$362.8 million, respectively.

**TABLE 6. LIQUIDITY RATIOS**

<i>(dollars in thousands)</i>	<b>2005</b>	<b>2004</b>
Free securities	<b>41.80%</b>	<b>28.00%</b>
Free securities-net wholesale funds/core deposits	<b>11.10%</b>	<b>2.80%</b>
Wholesale funding diversification		
Certificate of deposits > \$100,000 (excluding public funds)	<b>6.90%</b>	<b>5.70%</b>
Brokered certificate of deposits	<b>0.40%</b>	<b>0.50%</b>
Public fund certificate of deposits	<b>\$149,612</b>	<b>\$149,032</b>
Net wholesale funding maturity concentrations		
Overnight	<b>0.00%</b>	<b>0.00%</b>
Up to 3 months	<b>1.40%</b>	<b>4.20%</b>
Up to 6 months	<b>1.70%</b>	<b>1.80%</b>
Over 6 months	<b>5.20%</b>	<b>3.90%</b>
Net wholesale funds	<b>\$514,003</b>	<b>\$480,094</b>
Core deposits	<b>\$4,303,561</b>	<b>\$3,050,102</b>

The liability portion of the balance sheet provides liquidity through various customers' interest-bearing and non-interest-bearing deposit accounts. Purchases of federal funds, securities sold under agreements to repurchase and other short-term borrowings are additional sources of liquidity and represent the Company's incremental borrowing capacity. These sources of liquidity are short-term in nature and are used as necessary to fund asset growth and meet short-term liquidity needs. The Company's short-term borrowing capacity includes an approved line of credit with the Federal Home Loan Bank of \$323 million and borrowing capacity at the Federal Reserve's Discount Window in excess of \$100 million. As of December 31, 2005 and 2004, the Company's core deposits were \$4.304 billion and \$3.050 billion, respectively and net wholesale funding (the sum of federal funds, dealer repurchase agreements, treasury tax & loan deposits, brokered certificate of deposits, bank notes, securitization and certificates of deposits greater than \$100,000 less money market assets) stood at \$514.0 million and \$480.1 million, respectively.

### Contractual Obligations

The Company has contractual obligations to make future payments on certain debt and lease agreements. Table 7 summarizes all significant contractual obligations at December 31, 2005, according to payments due by period.

**TABLE 7. CONTRACTUAL OBLIGATIONS**

<i>(dollars in thousands)</i>	<b>Payment due by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Certificates of deposit	<b>\$1,500,047</b>	<b>\$906,373</b>	<b>\$452,356</b>	<b>\$141,304</b>	<b>\$14</b>
Short-term debt obligations	<b>252,282</b>	<b>252,282</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long-term debt obligations	<b>50,266</b>	<b>12</b>	<b>21</b>	<b>50,026</b>	<b>207</b>
Operating lease obligations*	<b>17,629</b>	<b>4,495</b>	<b>4,692</b>	<b>3,449</b>	<b>4,993</b>
Total	<b>\$1,820,224</b>	<b>\$1,163,162</b>	<b>\$457,069</b>	<b>\$194,779</b>	<b>\$5,214</b>

\*The Company has no material capital lease obligations

### Asset/Liability Management

The asset liability management (ALM) process at the Company consists of quantifying, analyzing and controlling interest rate risk (IRR) to maintain stability in net interest income (NII) under varying interest rate environments. The principal objective of ALM is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of liquidity.

The Company's net earnings are dependent on its net interest income. Net interest income is susceptible to IRR to the degree that interest-bearing liabilities mature or reprice on a different basis and timing than interest-earning assets. This timing difference represents a potential risk to the Company's future earnings. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest and the subsequent impact on customer behavior could adversely affect NII. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates and changes in customer behavior could result in a decrease in NII.

Management and the Asset/Liability Committee (ALCO) direct the Company's IRR management through a Risk Management policy that is designed to produce a stable net interest margin (NIM) in periods of interest rate fluctuation. In

adjusting the Company's asset/liability position, the Board and Management attempt to direct the Company's IRR while enhancing the NIM. At times, depending on the general level of interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, Management may determine strategies that could add to the level of IRR in order to increase its NIM. Notwithstanding the Company's IRR management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net earnings.

Interest-sensitive assets and liabilities are those that are subject to maturity or repricing within a given time period. Management also administers this sensitivity through the development and implementation of investment, lending, funding and pricing strategies designed to achieve NII performance goals while minimizing the potential negative variations in NII under different interest rate scenarios. Investment strategies, including portfolio durations and cash flows, are formulated and continually adjusted during the implementation to assure attainment of objectives in the most effective manner. Loan and deposit pricing are adjusted weekly to reflect current interest rate and competitive market environments, with duration targets on both reviewed monthly.

The post-Hurricane Katrina environment has significantly impacted the mix of the Company's balance sheet. During the last half of 2005, customer behavior had begun to react to the changes in the yield curve by moving towards more liquidity (holding deposits of a shorter nature including contractual obligations less than 24 months in duration). The continued rise in short term rates that flattened the yield curve combined with an inflow of customer deposits after the storm shortened these preferences even further. Similarly, non-interest bearing deposit inflows increased considerably after the storm.

The increase in short term liabilities during the fourth quarter contributed heavily to a shift in the Company's gap position from asset sensitive to evenly gapped (shown in Table 8 below). Management has sought to control the liquidity risk from this movement by laddering securities portfolio investments across overnight Fed Funds Sold, U.S. Agency discount notes, and short duration bullet maturity U.S. Agency bonds. The reinvestment opportunity from these cash flows was appropriately coordinated with the Company's existing portfolio investment strategy to assist in controlling the interest rate risk of the resulting balance sheet position.

The static gap report shown in Table 8 measures the net amounts of assets and liabilities that reprice within a given time period over the remaining lives of those instruments. The Company ended 2005 in a neutral position. The forecast includes an aggressive approach for potential deposit outflows related to the post-storm rebuilding effort in the Gulf Coast region. This static position combined with the NII at risk scenarios, noted in Table 9, indicates the Company would benefit from a rising rate environment. Moreover, Management believes it has many strategic options available for continued maximization of NII over time.

**TABLE 8. INTEREST RATE SENSITIVITY**

	December 31, 2005						Total
	Overnight	Within 6 months	6 months to 1 year	1 to 3 years	> 3 years	Non-Sensitive Balance	
(dollars in thousands)							
<b>Assets</b>							
Securities	\$ -	\$ 321,224	\$ 396,374	\$ 544,557	\$ 685,504	\$ 11,602	\$ 1,959,261
Federal funds sold & short-term investments	402,968	-	7,258	-	-	-	410,226
Loans	43,145	1,413,210	240,200	634,416	583,657	-	2,914,628
Other assets	-	-	-	-	-	666,072	666,072
<b>Total Assets</b>	<b>\$ 446,113</b>	<b>\$ 1,734,434</b>	<b>\$ 643,832</b>	<b>\$ 1,178,973</b>	<b>\$ 1,269,161</b>	<b>\$ 677,674</b>	<b>\$ 5,950,187</b>
<b>Liabilities</b>							
Interest bearing							
transaction deposits	\$ -	\$ 776,515	\$ 309,737	\$ 923,166	\$ 155,417	\$ -	\$ 2,164,835
Time deposits	-	410,815	495,558	452,356	141,318	-	1,500,047
Non-interest bearing deposits	-	425,444	159,876	533,352	206,266	-	1,324,938
Federal funds purchased	1,475	-	-	-	-	-	1,475
Borrowings	250,807	9	3	21	50,233	-	301,073
Other liabilities	-	-	-	-	-	180,404	180,404
Stockholders' equity	-	-	-	-	-	477,415	477,415
<b>Total Liabilities &amp; Equity</b>	<b>\$ 252,282</b>	<b>\$ 1,612,783</b>	<b>\$ 965,174</b>	<b>\$ 1,908,895</b>	<b>\$ 553,234</b>	<b>\$ 657,819</b>	<b>\$ 5,950,187</b>
<b>Interest sensitivity gap</b>	<b>\$ 193,831</b>	<b>\$ 121,651</b>	<b>\$ (321,342)</b>	<b>\$ (729,922)</b>	<b>\$ 715,927</b>	<b>\$ 19,855</b>	
<b>Cumulative interest rate sensitivity gap</b>	<b>\$ 193,831</b>	<b>\$ 315,482</b>	<b>\$ (5,860)</b>	<b>\$ (735,782)</b>	<b>\$ (19,855)</b>	<b>\$ -</b>	
<b>Cumulative interest rate sensitivity gap as a percentage of total earning assets</b>	<b>4.0 %</b>	<b>6.0 %</b>	<b>(0.1)%</b>	<b>(14.0)%</b>	<b>(0.4)%</b>		

To further control IRR, the Company structures its loan portfolio strategies to provide appropriate investment opportunities while minimizing potential volatility in earnings from extension risk. Deposit strategies continue to emphasize

non-certificate of deposit core accounts. The Board and Management believe that such accounts carry a lower interest cost than certificate accounts, and that a material portion of such accounts may be more resistant to changes in interest rates.

NII at risk measures the risk of a decline in earnings due to changes in interest rates. Table 9 presents an analysis of the Company's IRR as measured by the estimated changes in NII resulting from an instantaneous and sustained parallel shift in the yield curve at December 31, 2005. Shifts are measured in 100 basis point increments (+ 300 through - 200 basis points,) from base case. Current interest rate levels and forecasts make it improbable that rates would fall in excess of 200 basis points; therefore, a down 300 scenario is not presented. Base case encompasses key assumptions for asset/liability mix, loan and deposit growth, pricing, prepayment speeds, deposit decay rates, securities portfolio cash flows and reinvestment strategy, and the market value of certain assets under the various interest rate scenarios. The base case scenario assumes that the current interest rate environment is held constant throughout the forecast period; the instantaneous shocks are performed against that yield curve.

**TABLE 9. NET INTEREST INCOME (te) AT RISK**

<b>Change in Interest Rates</b> (basis points)	<b>Estimated Increase (Decrease) in NII December 31, 2005</b>
- 200	-12.8%
- 100	-5.2%
<b>Stable</b>	<b>0.0%</b>
+ 100	2.7%
+ 200	4.7%
+ 300	6.5%
<b>Most Likely</b>	<b>2.2%</b>

Additionally, the Company has forecast a Most Likely NII scenario based on its conservative projection of yield curve changes for the coming 12 month period. This scenario utilizes all base case assumptions, applying those assumptions against a yield curve forecast that incorporates the current interest rate environment and projects changes over the forecast period. Table 9 indicates that the Company's level of NII increases under rising rates and declines under falling rates. The most likely scenario for interest rates projects net interest income to exceed base case by 1.5% indicating that the balance sheet is appropriately structured for the current rate environment.

The downward rate scenarios show increased levels of volatility; however, these scenarios are instantaneous shocks that assume balance sheet management will mirror base case. Should the yield curve begin to fall, Management has several strategies available to offset the negative impact to earnings. For example, deposit pricing strategies could be adjusted to further incent customer behavior to non-contractual or short term (less than 12 months) contractual deposit products which would reset downward with the changes in the yield curve and prevailing market rates. Another opportunity at the start of such a cycle would be reinvesting the securities portfolio cash flows into longer term, non-callable bonds that would lock in higher yields. Finally, there are a number of hedge strategies by which Management could use derivatives, including swaps and purchased floors, to lock in net interest margin protection. However, to date, management has not entered into any hedge transactions.

Even if interest rates change in the designated amounts, there can be no assurance that the Company's assets and liabilities would perform as anticipated. Additionally, a change in the U.S. Treasury rates in the designated amounts accompanied by a change in the shape of the U.S. Treasury yield curve would cause significantly different changes to NII than indicated above. Strategic management of the Company's balance sheet and earnings is fluid and would be adjusted to accommodate these movements. As with any method of measuring IRR, certain shortcomings are inherent in the methods of analysis presented above. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Certain assets such as adjustable-rate loans have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Finally, the ability of many borrowers to service their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

### Capital Resources

Common stockholders' equity totaled \$477.4 million at December 31, 2005, which represented an increase of \$12.8 million from the end of 2004. The increase from 2004 was primarily due to net earnings of \$54.0 million. This increase was

partially offset by a \$9.5 million decrease in common stock related to the execution of the Company's ongoing stock buyback program. Dividends paid by the Company to common stockholders totaled approximately \$23.4 million, or \$0.72 per common share. This represents an increase of \$0.14, or 24%, per common share over 2004. There was no preferred stock outstanding at December 31, 2005 or December 31, 2004; however, preferred stock totaled \$37.1 million at December 31, 2003.

On February 4, 2004, the Company completed the redemption/conversion of substantially all the shares of 8% Cumulative Convertible Preferred Stock. The conversion factor was 1.3332 shares of the Company's common stock for each share of preferred stock. A total of 7,304 shares of the preferred stock were redeemed for cash at the contract price of \$20.00 per share plus pro rated dividends of \$0.1511 per share. Pursuant to the terms of the preferred stock, the redemption was contingent on the Company's common stock trading at \$18.75 or above for 20 consecutive trading days beginning after January 1, 2004. The closing price of the Company's common stock on January 2, 2004 was \$27.36.

On February 26, 2004, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% common stock dividend. The additional shares were payable March 18, 2004 to stockholders of record at the close of business on March 8, 2004. On July 12, 2002, the Company's Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend. The additional shares were payable on August 5, 2002 to stockholders of record at the close of business on July 23, 2002. All information including earnings per share, dividends per share and numbers of shares outstanding have been restated to give effect to these splits.

Common stockholders' equity at December 31, 2005 reflects a balance of \$8.5 million (net of tax) relating to the unfunded portion of the Company's pension plan. The principal cause of this unfunded pension liability is that the actual return on plan assets in recent years has been less than expected due to overall market conditions and the discount rate used to measure the liability has declined consistently with the recent trend in interest rates. The Company used discount rates on the obligations of 5.5% and 6.0% for 2005 and 2004, respectively. These rates reflect current market conditions at the time of the calculation.

A strong capital position, which is vital to the continued profitability of the Company, also promotes depositor and investor confidence and provides a solid foundation for the future growth of the Company. Composite ratings by the respective regulatory authorities of the Company and the Banks establish minimum capital levels. Currently, the Company and the Banks are required to maintain minimum Tier 1 leverage ratios of at least 3%, subject to an increase up to 5%, depending on the composite rating. At December 31, 2005, the Company's and the Banks' capital balances were in excess of current regulatory minimum requirements. As indicated in Table 10 below, the regulatory capital ratios of the Company and the Banks far exceed the minimum required ratios, and the Banks have been categorized as "well capitalized" in the most recent notice received from their regulators.

The Company remains very well capitalized even with a \$1.16 billion increase in total assets since the storm made landfall on August 29, 2005. As of December 31, 2005, the Company's Leverage (tier one) Ratio stands at 7.85%, while the Tangible Equity Ratio is 6.89% (see below in Table 10). While the Company remains very well capitalized, so that it maintains flexibility for future capital needs, including acquisitions, the Company may consider raising additional capital at some point in 2006.

**TABLE 10. RISK-BASED CAPITAL AND CAPITAL RATIOS**

<i>(dollars in thousands)</i>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Tier 1 regulatory capital	<b>\$420,283</b>	<b>\$399,320</b>	<b>\$378,262</b>	<b>\$354,535</b>	<b>\$345,589</b>
Tier 2 regulatory capital	<b>46,218</b>	<b>38,161</b>	<b>34,175</b>	<b>29,544</b>	<b>30,071</b>
Total regulatory capital	<b>\$466,501</b>	<b>\$437,481</b>	<b>\$412,437</b>	<b>\$384,079</b>	<b>\$375,660</b>
Risk-weighted assets	<b>\$3,665,722</b>	<b>\$3,222,554</b>	<b>\$2,770,904</b>	<b>\$2,383,423</b>	<b>\$2,387,945</b>
<b>Ratios</b>					
Leverage (Tier 1 capital to average assets)	<b>7.85%</b>	<b>8.97%</b>	<b>9.29%</b>	<b>9.19%</b>	<b>8.50%</b>
Tier 1 capital to risk-weighted assets	<b>11.47%</b>	<b>12.39%</b>	<b>13.65%</b>	<b>14.88%</b>	<b>14.47%</b>
Total capital to risk-weighted assets	<b>12.73%</b>	<b>13.58%</b>	<b>14.88%</b>	<b>16.11%</b>	<b>15.73%</b>
Common stockholders' equity to total assets	<b>9.65%</b>	<b>9.96%</b>	<b>9.59%</b>	<b>9.75%</b>	<b>9.99%</b>
Tangible common equity to total assets	<b>6.89%</b>	<b>8.58%</b>	<b>8.32%</b>	<b>8.45%</b>	<b>8.61%</b>

The Company continued the execution of the common stock buyback program, which provides for the repurchase of up to 10% of the Company's outstanding common stock. This program was announced in July 2000 and authorized the repurchase of approximately 3,320,000 shares of the Company's outstanding stock. Over the course of 2005, the Company purchased 147,909 shares of common stock at an aggregate price of \$4.5 million, or approximately \$30.45 per share. In 2004, the Company purchased 236,034 shares of common stock at an aggregate price of \$6.8 million, or approximately \$29.49 per share. As of December 31, 2005, the total number of common shares purchased under the current stock buyback program since inception was approximately 2,602,000, or 7.9%, of the outstanding common shares at June 30, 2000.

## Results of Operations

### Net Interest Income

Net interest income (te) is the primary component of the Company's earnings and represents the difference, or spread, between revenue generated from interest-earning assets and the interest expense related to funding those assets. Fluctuations in interest rates, as well as volume and mix changes in earning assets and interest-bearing liabilities can materially impact net interest income (te).

Net interest income (te) of \$196.2 million was recorded for the year 2005, an increase of \$19.4 million, or 11%, from 2004. The Company also experienced a less significant increase of \$9.4 million, or 6%, from 2003 to 2004. The factors contributing to the changes in net interest income (te) for 2005, 2004 and 2003 are presented in Tables 11 and 12. Table 11 is an analysis of the components of the Company's average balance sheets, levels of interest income and expense and the resulting earning asset yields and liability rates. Table 12 breaks down the overall changes in the level of net interest income into rate and volume components. Net interest income (te) in 2005 was primarily impacted by increased average earning assets, which were funded primarily with deposit growth fueled by storm-related average deposit inflows.

When comparing 2005 to 2004, the primary driver of the \$19.4 million, or 11% increase, in net interest income (te) was a \$475 million, or 12%, increase in average earning assets mainly from average loan growth of \$283 million, or 11%. The Company's loan growth and overall increase in earning assets was primarily funded by average deposit growth of \$399 million, or 11%. This overall improvement in the earning asset mix enabled the Company to maintain its average loan-to-deposit ratio at 72% for the year ended December 31, 2005 compared to 72% in 2004. In addition, for the year ended December 31, 2005, loans comprise 56% of the Company's earning asset base, as compared to 65% for the year ended December 31, 2004. It is not uncommon for loan growth to lag deposit growth in the aftermath of a storm such as Hurricane Katrina. Loan growth in the Company's operating region is expected to pick up significantly once the inflows of insurance and federal aid funds begin to subside later in 2006. The net interest margin (te) narrowed 4 basis points as the overall increase in average earning asset yield (20 basis points) did not offset the increase in total funding costs (24 basis points). The Company's ability to effect continuing improvements in the earning asset mix remains a significant positive contributor to future earnings expansion.

Average earning assets increased \$475 million, or 12%, during 2005 mainly from average loan growth of \$283 million, or 11%. Average securities increased \$89 million, or 7%, over 2004. The increase in average earning assets was funded primarily with total average deposit growth of \$399 million, or 11%. Average interest-bearing deposits increased \$226 million, or 8%, while average non-interest bearing deposits increased \$173 million, or 27% resulting primarily from the aforementioned inflows of deposits related to Hurricane Katrina.

**TABLE 11. SUMMARY OF AVERAGE BALANCE SHEETS  
NET INTEREST INCOME (te) & INTEREST RATE**

<i>(dollars in thousands)</i>	2005			2004			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
<b>ASSETS</b>									
<b>EARNING ASSETS</b>									
Loans* (te)	\$2,883,020	\$201,446	6.99%	\$2,599,561	\$172,868	6.65%	\$2,238,245	\$161,850	7.23%
U.S. Treasury securities	16,838	532	3.16%	11,003	200	1.82%	29,575	948	3.20%
U.S. agency securities	514,834	21,499	4.18%	424,875	17,755	4.18%	466,809	19,162	4.10%
CMOs	241,473	9,492	3.93%	296,625	11,515	3.88%	440,705	14,905	3.38%
Mortgage-backed securities	437,037	19,407	4.44%	389,871	16,706	4.29%	302,393	12,558	4.15%
Obligations of states and political subdivisions (te)	161,464	11,251	6.97%	173,317	12,371	7.14%	198,599	14,045	7.07%
FHLB stock and other corporate securities	62,769	2,822	4.50%	49,659	2,248	4.53%	28,075	1,215	4.33%
Total investment in securities	1,434,415	65,003	4.53%	1,345,350	60,795	4.52%	1,466,156	62,833	4.29%
Federal funds sold and short-term investments	137,821	4,559	3.31%	34,911	384	1.10%	57,986	637	1.10%
Total earning assets (te)	4,455,256	271,008	6.08%	3,979,822	234,047	5.88%	3,762,387	225,320	5.99%
<b>NON-EARNING ASSETS</b>									
Other assets	525,881			482,629			384,953		
Allowance for loan losses	(50,107)			(38,117)			(35,391)		
Total assets	\$4,931,030			\$4,424,334			\$4,111,949		
<b>LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY</b>									
<b>INTEREST-BEARING LIABILITIES</b>									
Interest-bearing transaction deposits	\$1,384,605	9,203	0.66%	\$1,360,198	8,191	0.60%	\$1,303,441	10,461	0.80%
Time deposits	1,149,239	40,654	3.54%	1,018,165	35,056	3.44%	980,703	34,429	3.51%
Public funds	644,849	17,724	2.75%	574,266	9,323	1.62%	518,613	9,301	1.79%
Total interest-bearing deposits	3,178,693	67,581	2.13%	2,952,629	52,570	1.78%	2,802,757	54,191	1.93%
Customer repurchase agreements	224,842	4,351	1.94%	195,470	1,909	0.98%	177,535	1,446	0.81%
Other interest-bearing liabilities	69,057	2,887	4.18%	69,960	2,791	3.99%	56,672	2,324	4.10%
Total interest-bearing liabilities	3,472,592	74,819	2.15%	3,218,059	57,270	1.78%	3,036,964	57,961	1.91%
<b>NON-INTEREST BEARING LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY</b>									
Demand deposits	822,733			650,106			604,448		
Other liabilities	160,004			106,545			37,434		
Preferred stockholders' equity	-			2,240			37,069		
Common stockholders' equity	475,701			447,384			396,034		
Total liabilities, preferred stock & common stockholders' equity	\$4,931,030		1.68%	\$4,424,334		1.44%	\$4,111,949		1.54%
Net interest income and margin (te)		\$196,189	4.40%		\$176,777	4.44%		\$167,359	4.45%
Net earning assets and spread	\$982,664		3.93%	\$761,763		4.10%	\$725,423		4.08%

\*Loan interest income includes loan fees of \$8.6 million, \$9.2 million and \$11.1 million for each of the three years ended December 31, 2005. Non-accrual loans in average balances and income on such loans, if recognized, is recorded on a cash basis.

**TABLE 12. SUMMARY OF CHANGES IN NET INTEREST INCOME (te)**

<i>(dollars in thousands)</i>	2005 Compared to 2004			2004 Compared to 2003		
	Due to		Total	Due to		Total
	Change in	Rate		Increase	Change in	
	Volume		(Decrease)	Volume	Rate	(Decrease)
<b>INTEREST INCOME (te)</b>						
Loans*	\$16,913	\$11,665	\$28,578	\$20,176	(\$9,158)	\$11,018
U.S. Treasury securities	139	193	332	(443)	(305)	(748)
U.S. agency securities	3,735	9	3,744	(1,218)	(189)	(1,407)
CMOs	(1,918)	(105)	(2,023)	(2,586)	(804)	(3,390)
Mortgage-backed securities	2,072	629	2,701	3,741	407	4,148
Obligations of states and						
political subdivisions (te)	(172)	(948)	(1,120)	(409)	(1,265)	(1,674)
FHLB stock and						
other corporate securities	589	(15)	574	975	58	1,033
Total investment in securities	4,445	(237)	4,208	60	(2,098)	(2,038)
Federal funds and short-term investments	2,483	1,692	4,175	(254)	1	(253)
Total interest income (te)	\$23,841	\$13,120	\$36,961	\$19,982	(\$11,255)	\$8,727
<b>INTEREST EXPENSE</b>						
Interest-bearing transaction deposits	\$149	\$863	\$1,012	\$439	(\$2,709)	(\$2,270)
Time deposits	4,615	983	5,598	1,298	(671)	627
Public funds	1,266	7,135	8,401	948	(926)	22
Total interest-bearing deposits	6,030	8,981	15,011	2,685	(4,306)	(1,621)
Customer repurchase agreements	324	2,118	2,442	156	307	463
Other interest-bearing liabilities	65	31	96	332	135	467
Total interest expense	6,419	\$11,130	\$17,549	\$3,173	(\$3,864)	(\$691)
Change in net interest income (te)	\$17,422	\$1,990	\$19,412	\$16,809	(\$7,391)	\$9,418

\*Loan interest income includes loan fees of \$8.6 million, \$9.2 million and \$11.1 million for each of the three years ended December 31, 2005.

Non-accrual loans in average balances and income on such loans, if recognized, is recorded on a cash basis.

### Provision for Loan Losses

The Company's provision for loan losses was \$42.6 million in 2005, \$16.5 million in 2004 and \$15.2 million in 2003. The provision for loan losses increased \$26.1 million, or 158%, when comparing 2005 to 2004. This increase was primarily a function of the Company's recording of a \$35.2 million storm-related provision for credit losses as well as \$241 million of period-end loan growth experienced between December 31, 2004 and December 31, 2005. Net charge-offs decreased \$3.8 million, or 31%, from 2004 to 2005 and were \$8.8 million for 2005. During 2005, the provision for loan losses equaled 487% of net charge-offs compared with 131% in 2004 and 115% in 2003. The provision for loan losses reflects Management's assessment of the adequacy of the allowance for loan losses to absorb probable losses in the loan portfolio. The amount of provision for each period is dependent on many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, identified loan impairment, Management's assessment of the loan portfolio quality, the value of collateral, as well as, overall economic factors. The Company's allowance for loan losses as a percent of period-end loans was 2.49% at December 31, 2005, an increase of 101 basis points from the 1.48% at December 31, 2004.

The Company's asset quality committee has the responsibility of affirming the allowance methodology and assessing all of the risk elements in order to determine the appropriate level of allowance for the inherent losses in the loan portfolio at the point in time being reviewed. One element of the allowance for loan losses analysis involves the calculation of specific allowances for individual impaired loans as required by SFAS No. 114 and 118. The general allowance for loan pools is determined by applying loan loss allowance factors to groups of loans within the portfolio that have similar characteristics. An additional element includes unallocated components that are not otherwise evaluated in the first two elements.

## Non-Interest Income

Table 13 presents a three-year analysis of the components of non-interest income. Overall, non-interest income of \$98.3 million was reported in 2005, as compared to \$90.3 million for 2004 and \$74.8 million for 2003. This represents an increase of \$8.0 million, or 9%, from 2004 to 2005 and an increase of \$15.5 million, or 21%, from 2003 to 2004. Included in non-interest income are net storm-related items of \$6.6 million. This represents gains on involuntary conversions of assets lost in Hurricane Katrina for which insurance proceeds had been received or which the claims proceeds were substantially assured, net of certain direct costs. Excluding the impact of net storm-related items and securities transactions, non-interest income for 2005 was \$91.7 million compared to non-interest income in 2004 of \$84.9 million (excluding the gains on sales of branches and credit card merchant services business). This represents an increase of \$6.8 million, or 8% as compared to 2004. During 2004, the Company sold four Louisiana branches at a \$2.3 million pre-tax gain and also sold its credit card merchant services business at a pre-tax gain of \$3.0 million.

Considerable increases in non-interest income, when comparing 2005 to 2004, were experienced in trust fees, investment and annuity fees, insurance commission fees, and other fees and income. Smaller increases were also experienced in debit card and merchant fees. Significantly offsetting the increased non-interest income when compared to 2004 were decreases in service charges on deposit accounts principally due to waived return item fees and other service charges as a result of accommodations to customers impacted by Hurricane Katrina along with changes in customer behavior since many had significant cash available from insurance proceeds.

Trust fee income increased \$2.1 million, or 23%, when compared to the previous year as a result of increases in the value of assets under care (either managed or in custody). Investment and annuity fees increased \$2.8 million, or 121%, from 2004 to 2005. Higher levels of insurance commissions and fees (up \$7.9 million or 86%) were mostly related to higher revenues associated with Magna Insurance Company, the Company's wholly owned insurance company. In addition, on July 1, 2005 the Company acquired J. Everett Eaves, Inc., a property and casualty insurance agency, as a division of Hancock Insurance Agency. Other fees and income increased \$3.4 million, or 38%, from 2004 to 2005.

Service charges on deposit accounts decreased \$8.9 million, or 20%, when comparing 2005 to 2004, primarily due to the aforementioned waived return items and other service charges resulting from the impact of Hurricane Katrina. The level of ATM fees decreased from last year to this year by \$310,000, or 7%, due to decreased volume. Secondary mortgage market operations income decreased \$713,000, or 24%, compared to 2004 primarily due to the reversal during 2004 of an \$850,000 mortgage servicing rights valuation allowance that had been previously established. Securities transactions gains/losses declined by \$216,000, or 133%, from gains of \$163,000 in 2004 to losses of \$53,000 in 2005.

**TABLE 13. NON-INTEREST INCOME**

<i>(dollars in thousands)</i>	<b>2005</b>	<b>% change</b>	<b>2004</b>	<b>% change</b>	<b>2003</b>
Service charges on deposit accounts	\$34,773	-20%	\$43,631	3%	\$42,544
Trust fees	11,107	23%	9,030	17%	7,724
Investment and annuity fees	5,076	121%	2,295	-37%	3,615
Insurance commissions and fees	17,099	86%	9,193	234%	2,750
Debit card & merchant fees	4,878	14%	4,271	17%	3,643
ATM fees	4,202	-7%	4,512	13%	3,994
Secondary mortgage market operations	2,221	-24%	2,934	70%	1,728
Other fees and income	12,382	38%	8,994	27%	7,091
Total recurring non-interest income	91,738	8%	84,860	16%	73,089
Net storm-related items	6,584	n/a	-	-	-
Gains on sales of branches & credit card merchant services business	-	-100%	5,258	-	-
Securities transactions	(53)	-133%	163	-90%	1,667
Total non-interest income	\$98,269	9%	\$90,281	21%	\$74,756

Significant increases in non-interest income in 2004 over 2003 were reflected in trust fees, insurance commissions and fees, debit card and merchant fees, atm fees, secondary mortgage market operations, and other fees and income. Less significant increases were reflected in service charges on deposit accounts. Partially offsetting the increased non-interest income when compared to 2003 was a decrease in investment and annuity fees and a decrease in securities transactions gains.

Trust fees increased \$1.3 million from 2003 to 2004. Insurance commissions and fees increased \$6.4 million, or 234%, from 2003 to 2004 primarily due to continuing efforts on behalf of the Company to expand the wealth management line of business. Debit card and merchant fees increased \$628,000, or 17%, when compared to the previous year, primarily due to an increase in interchange income and a reduction in processing costs. Other fees and income increased \$1.9 million, or 27%, from 2003 to 2004 primarily due to recording income (\$1.2 million) on bank-owned life insurance. The investment in these life insurance policies totaled approximately \$51.2 million at December 31, 2004. The 2004 level of non-interest income includes a pre-tax net securities gain of \$163,000, related to the sale of securities available for sale with near-term maturity dates. Investment and annuity fees decreased \$1.3 million, or 37%, from 2003 to 2004. During 2003, the Company recorded

a mortgage servicing rights temporary impairment expense of \$850,000, which is the primary factor behind the secondary mortgage market operations increase of \$1.2 million, or 70%, from 2003 to 2004. The \$850,000 non-cash pretax expense to establish the valuation allowance was considered necessary due to an increase in the expected speed of mortgage loan prepayments resulting from the low interest rate environment at that time. As mentioned above, this temporary impairment was reversed during 2004.

### Non-Interest Expense

Table 14 presents an analysis of the components of non-interest expense for the years 2005, 2004 and 2003. The Company's level of operating expenses increased \$16.6 million, or 11%, from 2004 to 2005 and \$14.7 million, or 11%, from 2003 to 2004.

The significant factors driving the increase in operating expenses from 2004 to 2005 included an increase in personnel expense (\$7.8 million, or 9%), occupancy expense (\$1.0 million, or 10%), legal and professional services (\$2.1 million, or 25%), ad valorem and franchise taxes (\$1.9 million, or 112%), amortization of intangible assets, (\$249,000, or 13%), and other expense (\$3.5 million, or 26%).

In 2004, operating expenses increased \$14.7 million, or 11%, over 2003. Increases were reflected in personnel expense (\$5.0 million, or 6%), equipment and data processing expense (\$1.0 million, or 6%), occupancy expense (\$629,000, or 7%), legal and professional services (\$4.6 million, or 124%), amortization of intangibles (\$797,000, or 69%), and other expense (\$5.5 million, or 70%). Factors associated with the significant increase in other expense include the entrance into the Florida market with the acquisition of the former Guaranty National Bank (GNB) of Tallahassee, Florida in March of 2004 and the December 21, 2003 acquisition of Magna Insurance Company. Additionally, expenses associated with compliance with section 404 of the Sarbanes-Oxley legislation increased operating expenses. Partially offsetting the overall increase was a decrease in ad valorem and franchise taxes (\$1.2 million, or 42%), and costs associated with other real estate owned (\$1.2 million, or 70%). A recovery of \$1.2 million in previously paid franchise taxes to the state of Mississippi was reflected in the 2004 expense base.

**TABLE 14. NON-INTEREST EXPENSE**

<i>(dollars in thousands)</i>	<b>2005</b>	<b>% change</b>	<b>2004</b>	<b>% change</b>	<b>2003</b>
Employee compensation	\$76,602	11%	\$68,910	5%	\$65,597
Employee benefits	17,556	0%	17,494	11%	15,812
Total personnel expense	94,158	9%	86,404	6%	81,409
Equipment and data processing expense	17,358	0%	17,287	6%	16,255
Net occupancy expense	10,926	10%	9,915	7%	9,286
Postage and communications	7,820	-4%	8,152	-2%	8,352
Ad valorem and franchise taxes	3,607	112%	1,699	-42%	2,907
Legal and professional services	10,429	25%	8,322	124%	3,718
Printing and supplies	1,787	5%	1,702	-1%	1,724
Amortization of intangible assets	2,194	13%	1,945	69%	1,148
Advertising	5,232	22%	4,292	-2%	4,381
Deposit insurance and regulatory fees	814	-4%	844	-3%	867
Training expenses	359	-13%	412	-21%	519
Other real estate owned expense/(income)	(140)	-127%	514	-70%	1,706
Other expense	16,999	26%	13,463	70%	7,936
Total non-interest expense	\$ 171,543	11%	\$ 154,951	11%	\$ 140,208

### Income Taxes

Income tax expense was \$18.9 million in 2005, \$26.6 million in 2004 and \$24.6 million in 2003. Income tax expense decreased because of the lower level of pretax income in 2005. The effective income tax rate of the Company continues to be less than the statutory rate of 35%, due primarily to tax-exempt interest income. The effective tax rates for 2005, 2004 and 2003 were 26%, 30% and 31%, respectively. The 4% decrease in the Company's effective tax rate was due to a variety of factors including an increase in tax exempt income as a percentage of pre-tax income to 17% in 2005 from 13% in 2004, Hurricane Katrina tax credits available in 2005 and relief of a tax contingency reserve for non-taxable income primarily related to bank owned life insurance. The Company expects its effective tax rate to be approximately 29% for the year 2006.

## NOTES

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José R. Tarajano, Sr.

\* Hancock Holding Company Director,  
Emeritus

\*\*Hancock Holding Company Director

HANCOCK HOLDING COMPANY AND SUBSIDIARIES  
**CORPORATE INFORMATION**

**ANNUAL MEETING**

The annual meeting of stockholders will be held at 5:30 p.m., Thursday, March 30, 2006, at the Orange Grove-Lyman Community Center, 13472 Highway 49-North, Gulfport, Mississippi.

**CORPORATE OFFICES**

One Hancock Plaza  
2510 14th Street  
Gulfport, MS 39501  
(228) 868-4000  
1-800-522-6542

**AFFILIATE BANKS AND COMPANIES**

Hancock Bank  
Hancock Bank of Louisiana  
Hancock Bank of Florida  
Harrison Finance Company  
Hancock Investment Services, Inc.  
Hancock Insurance Agency, Inc.  
Harrison Life Insurance Company  
Magna Insurance Company

**COMMON STOCK**

The company's Common Stock is traded on the NASDAQ Market System under the symbol HBHC. The current NASDAQ market makers are

Archipelago, L.L.C.  
FTN Financial Securities Corp.  
Herzog, Heine, Geduld, Inc.  
Keefe, Bruyette & Woods, Inc.  
Morgan Keegan & Company, Inc.  
Schwab Capital Markets  
Sherwood Securities Corporation  
Spear, Leeds & Kellogg  
Stanford Group Co.  
Sterne, Agee & Leach, Inc.  
Stifel, Nicolaus & Company, Inc.  
SunTrust Robinson Humphrey

**STOCKHOLDER INFORMATION**

Stockholders seeking information may call the Transfer Agent at (228) 563-7658, or write

Hancock Bank  
Corporate Trust Services  
Post Office Box 4019  
Gulfport, MS 39502-4019

**DIVIDEND REINVESTMENT PLAN**

The plan allows certain Hancock Holding Company stockholders to reinvest their dividends in Hancock Holding Company common stock. The plan also permits those participating to buy additional shares with optional cash payments. Full details about the plan are available by calling (228) 563-7658, or writing

Hancock Bank  
Corporate Trust Services  
Post Office Box 4019  
Gulfport, MS 39502-4019

**CASH DIVIDEND DIRECT DEPOSIT**

Stockholders may elect to have their Hancock Holding Company dividends directly deposited into a checking, savings, or money market account. This service provides a safe, convenient method of receiving dividends and is offered at no cost to stockholders. To obtain more information and an enrollment form, call (228) 563-7658, or write

Hancock Bank  
Corporate Trust Services  
Post Office Box 4019  
Gulfport, MS 39502-4019

**FINANCIAL INFORMATION**

Copies of Hancock Holding Company financial reports, including the Annual Report to the Securities and Exchange Commission on Form 10-K, are available without charge upon request to

Paul D. Guichet  
Vice President, Investor Relations  
Hancock Holding Company  
Post Office Box 4019  
Gulfport, MS 39502-4019

Earnings releases are available on the Company's website, [hancockbank.com](http://hancockbank.com).