

TRUSTMARK CORP  
Form 10-Q  
May 10, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-03683

Trustmark Corporation  
(Exact name of registrant as specified in its charter)

Mississippi  
(State or other jurisdiction of incorporation or organization)

64-0471500  
(I.R.S. Employer Identification No.)

248 East Capitol Street, Jackson, Mississippi  
(Address of principal executive offices)

39201  
(Zip Code)

(601) 208-5111  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 30, 2010, there were 63,868,674 shares outstanding of the registrant’s common stock (no par value).



PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

Trustmark Corporation and Subsidiaries  
Consolidated Balance Sheets  
(\$ in thousands)

	(Unaudited)	
	March 31, 2010	December 31, 2009
<b>Assets</b>		
Cash and due from banks (noninterest-bearing)	\$ 191,973	\$ 213,519
Federal funds sold and securities purchased under reverse repurchase agreements	11,599	6,374
Securities available for sale (at fair value)	1,706,565	1,684,396
Securities held to maturity (fair value: \$223,137-2010; \$240,674-2009)	215,888	232,984
Loans held for sale	176,682	226,225
Loans	6,170,878	6,319,797
Less allowance for loan losses	101,643	103,662
Net loans	6,069,235	6,216,135
Premises and equipment, net	145,113	147,488
Mortgage servicing rights	50,037	50,513
Goodwill	291,104	291,104
Identifiable intangible assets	18,944	19,825
Other assets	416,075	437,455
Total Assets	\$ 9,293,215	\$ 9,526,018
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 1,511,080	\$ 1,685,187
Interest-bearing	5,635,973	5,503,278
Total deposits	7,147,053	7,188,465
Federal funds purchased and securities sold under repurchase agreements	571,711	653,032
Short-term borrowings	132,784	253,957
Long-term FHLB advance	75,000	75,000
Subordinated notes	49,782	49,774
Junior subordinated debt securities	70,104	70,104
Other liabilities	118,252	125,626
Total Liabilities	8,164,686	8,415,958
<b>Shareholders' Equity</b>		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 63,844,500 shares - 2010; 63,673,839 shares - 2009	13,302	13,267
Capital surplus	250,365	244,864
Retained earnings	860,398	853,553
Accumulated other comprehensive income (loss), net of tax	4,464	(1,624)
Total Shareholders' Equity	1,128,529	1,110,060
Total Liabilities and Shareholders' Equity	\$ 9,293,215	\$ 9,526,018

See notes to consolidated financial statements.

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Trustmark Corporation and Subsidiaries  
 Consolidated Statements of Income  
 (\$ in thousands except per share data)  
 (Unaudited)

	Three Months Ended March 31,	
	2010	2009
<b>Interest Income</b>		
Interest and fees on loans	\$81,597	\$90,627
<b>Interest on securities:</b>		
Taxable	19,735	21,654
Tax exempt	1,417	1,192
Interest on federal funds sold and securities purchased under reverse repurchase agreements	8	19
Other interest income	383	313
<b>Total Interest Income</b>	<b>103,140</b>	<b>113,805</b>
<b>Interest Expense</b>		
Interest on deposits	13,904	22,540
Interest on federal funds purchased and securities sold under repurchase agreements	226	364
Other interest expense	1,592	2,352
<b>Total Interest Expense</b>	<b>15,722</b>	<b>25,256</b>
<b>Net Interest Income</b>	<b>87,418</b>	<b>88,549</b>
Provision for loan losses	15,095	16,866
<b>Net Interest Income After Provision for Loan Losses</b>	<b>72,323</b>	<b>71,683</b>
<b>Noninterest Income</b>		
Service charges on deposit accounts	12,977	12,568
Insurance commissions	6,837	7,422
Wealth management	5,355	5,555
General banking - other	5,880	5,407
Mortgage banking, net	6,072	10,907
Other, net	879	1,115
Securities gains, net	369	30
<b>Total Noninterest Income</b>	<b>38,369</b>	<b>43,004</b>
<b>Noninterest Expense</b>		
Salaries and employee benefits	42,854	43,425
Services and fees	10,255	10,000
Net occupancy - premises	5,034	5,178
Equipment expense	4,303	4,166
Other expense	13,915	11,638
<b>Total Noninterest Expense</b>	<b>76,361</b>	<b>74,407</b>
<b>Income Before Income Taxes</b>	<b>34,331</b>	<b>40,280</b>
Income taxes	10,876	13,795
<b>Net Income</b>	<b>23,455</b>	<b>26,485</b>
Preferred stock dividends	—	2,688

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Accretion of discount on preferred stock	—	438
Net Income Available to Common Shareholders	\$23,455	\$23,359
Earnings Per Common Share		
Basic	\$0.37	\$0.41
Diluted	\$0.37	\$0.41
Dividends Per Common Share	\$0.23	\$0.23

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries  
Consolidated Statements of Changes in Shareholders' Equity  
(\$ in thousands)  
(Unaudited)

	2010	2009
Balance, January 1,	\$ 1,110,060	\$ 1,178,466
Net income per consolidated statements of income	23,455	26,485
Other comprehensive income:		
Net change in fair value of securities available for sale	5,583	9,176
Net change in defined benefit plans	505	444
Comprehensive income	29,543	36,105
Preferred dividends paid	—	(2,508 )
Common stock dividends paid	(14,817 )	(13,314 )
Common stock issued-net, long-term incentive plans	1,704	(275 )
Excess tax benefit from stock-based compensation arrangements	807	373
Compensation expense, long-term incentive plans	1,292	1,521
Other	(60 )	—
Balance, March 31,	\$ 1,128,529	\$ 1,200,368

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries  
Consolidated Statements of Cash Flows  
(\$ in thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
<b>Operating Activities</b>		
Net income	\$23,455	\$26,485
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	15,095	16,866
Depreciation and amortization	5,798	7,053
Net amortization (accretion) of securities	429	(48 )
Securities gains, net	(369 )	(30 )
Gains on sales of loans, net	(3,755 )	(4,614 )
Deferred income tax benefit	(165 )	(5,003 )
Proceeds from sales of loans held for sale	250,012	489,493
Purchases and originations of loans held for sale	(197,088 )	(567,326 )
Originations of mortgage servicing rights	(3,761 )	(5,369 )
Net decrease in other assets	18,425	20,268
Net (decrease) increase in other liabilities	(10,000 )	9,838
Other operating activities, net	4,263	1,634
Net cash provided by (used in) operating activities	102,339	(10,753 )
<b>Investing Activities</b>		
Proceeds from calls and maturities of securities held to maturity	17,122	8,322
Proceeds from calls and maturities of securities available for sale	86,620	69,472
Proceeds from sales of securities available for sale	12,453	—
Purchases of securities held to maturity	—	(5,326 )
Purchases of securities available for sale	(108,094 )	(92,082 )
Net (increase) decrease in federal funds sold and securities purchased under reverse repurchase agreements	(5,225 )	15,387
Net decrease in loans	118,184	63,227
Purchases of premises and equipment	(935 )	(3,156 )
Proceeds from sales of premises and equipment	1	11
Proceeds from sales of other real estate	11,827	4,046
Net cash provided by investing activities	131,953	59,901
<b>Financing Activities</b>		
Net (decrease) increase in deposits	(41,412 )	333,070
Net decrease in federal funds purchased and securities sold under repurchase agreements	(81,321 )	(204,046 )
Net decrease in short-term borrowings	(120,799 )	(264,167 )
Proceeds from long-term FHLB advances	—	75,000
Preferred stock dividends	—	(2,508 )
Common stock dividends	(14,817 )	(13,314 )
Common stock issued-net, long-term incentive plan	1,704	(275 )
Excess tax benefit from stock-based compensation arrangements	807	373



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Net cash used in financing activities	(255,838 )	(75,867 )
Decrease in cash and cash equivalents	(21,546 )	(26,719 )
Cash and cash equivalents at beginning of period	213,519	257,930
Cash and cash equivalents at end of period	\$191,973	\$231,211

See notes to consolidated financial statements.

TRUSTMARK CORPORATION & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Financial Statement Presentation and Principles of Consolidation

The consolidated financial statements in this quarterly report on Form 10-Q include the accounts of Trustmark Corporation (Trustmark) and all other entities in which Trustmark has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2009 annual report on Form 10-K.

Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting period and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2010 actual conditions could vary from those anticipated, which could affect our results of operations and financial condition. The allowance for loan losses, the valuation of other real estate, the fair value of mortgage servicing rights, the valuation of goodwill and other identifiable intangibles and the fair values of financial instruments are particularly subject to change.

## Note 2 – Securities Available for Sale and Held to Maturity

The following table is a summary of the amortized cost and estimated fair value of securities available for sale and held to maturity (\$ in thousands):

March 31, 2010	Securities Available for Sale				Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. Government agency obligations								
Issued by U.S. Government agencies	\$ 18	\$ —	\$ —	\$ 18	\$ —	\$ —	\$ —	\$ —
Issued by U.S. Government sponsored agencies	68,685	101	(212 )	68,574	—	—	—	—
Obligations of states and political subdivisions	121,335	2,401	(444 )	123,292	69,975	2,554	(54 )	72,475
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	11,467	522	(3 )	11,986	6,801	45	(22 )	6,824
Issued by FNMA and FHLMC	51,140	428	(276 )	51,292	—	—	—	—
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,331,834	55,918	—	1,387,752	136,054	4,708	—	140,762
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	55,049	2,436	—	57,485	3,058	32	(14 )	3,076
Corporate debt securities	6,061	105	—	6,166	—	—	—	—
Total	\$ 1,645,589	\$ 61,911	\$ (935 )	\$ 1,706,565	\$ 215,888	\$ 7,339	\$ (90 )	\$ 223,137
December 31, 2009								
U.S. Government agency obligations	\$ 20	\$ —	\$ —	\$ 20	\$ —	\$ —	\$ —	\$ —

Issued by U.S. Government agencies								
Issued by U.S. Government sponsored agencies	48,685	—	(768 )	47,917	—	—	—	—
Obligations of states and political subdivisions	115,118	2,758	(368 )	117,508	74,643	2,551	(211 )	76,983
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	11,765	462	(35 )	12,192	7,044	10	(65 )	6,989
Issued by FNMA and FHLMC	49,510	366	(597 )	49,279	—	—	—	—
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,333,983	48,650	(77 )	1,382,556	148,226	5,448	—	153,674
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	67,294	1,506	(65 )	68,735	3,071	—	(43 )	3,028
Corporate debt securities	6,087	102	—	6,189	—	—	—	—
Total	\$ 1,632,462	\$ 53,844	\$ (1,910)	\$ 1,684,396	\$ 232,984	\$ 8,009	\$ (319 )	\$ 240,674

## Temporarily Impaired Securities

The table below includes securities available for sale and held to maturity with gross unrealized losses segregated by length of impairment (\$ in thousands):

March 31, 2010	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)
U.S. Government agency obligations						
Issued by U.S. Government sponsored agencies	\$37,478	\$(212)	\$—	\$—	\$37,478	\$(212)
Obligations of states and political subdivisions	22,004	(326)	5,649	(172)	27,653	(498)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	4,839	(25)	—	—	4,839	(25)
Issued by FNMA and FHLMC	34,620	(276)	—	—	34,620	(276)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	758	(14)	—	—	758	(14)
Total	\$99,699	\$(853)	\$5,649	\$(172)	\$105,348	\$(1,025)
December 31, 2009						
U.S. Government agency obligations						
Issued by U.S. Government sponsored agencies	\$47,917	\$(768)	\$—	\$—	\$47,917	\$(768)
Obligations of states and political subdivisions	18,694	(280)	6,476	(299)	25,170	(579)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	8,461	(100)	—	—	8,461	(100)
Issued by FNMA and FHLMC	42,255	(597)	—	—	42,255	(597)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	40,109	(77)	—	—	40,109	(77)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	26,514	(108)	—	—	26,514	(108)
Total	\$183,950	\$(1,930)	\$6,476	\$(299)	\$190,426	\$(2,229)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, Management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of Trustmark to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses shown above are primarily due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at March 31, 2010.

#### Security Gains and Losses

Gains and losses as a result of calls and dispositions of securities were as follows (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
Available for Sale		
Proceeds from sales of securities	\$ 12,453	\$ —
Gross realized gains	364	—
Gross realized (losses)	—	—
Held to Maturity		
Proceeds from calls of securities	\$ 1,705	\$ 3,311
Gross realized gains	5	30

Realized gains and losses are determined using the specific identification method and are included in noninterest income as securities gains, net.

## Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at March 31, 2010, by contractual maturity, are shown below (\$ in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$9,100	\$9,228	\$5,635	\$5,670
Due after one year through five years	24,496	25,285	15,202	15,583
Due after five years through ten years	134,310	135,116	36,286	37,664
Due after ten years	28,193	28,421	12,852	13,558
	196,099	198,050	69,975	72,475
Mortgage-backed securities	1,449,490	1,508,515	145,913	150,662
Total	\$1,645,589	\$1,706,565	\$215,888	\$223,137

## Note 3 – Loans and Allowance for Loan Losses

For the periods presented, loans consisted of the following (\$ in thousands):

	March 31, 2010	December 31, 2009
Real estate loans:		
Construction, land development and other land loans	\$803,942	\$830,069
Secured by 1- 4 family residential properties	1,637,121	1,650,743
Secured by nonfarm, nonresidential properties	1,466,296	1,467,307
Other real estate secured	194,641	197,421
Commercial and industrial loans	1,041,580	1,059,164
Consumer loans	542,488	606,315
Other loans	484,810	508,778
Loans	6,170,878	6,319,797
Less allowance for loan losses	101,643	103,662
Net loans	\$6,069,235	\$6,216,135

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total loans. At March 31, 2010, Trustmark's geographic loan distribution was concentrated primarily in its Florida, Mississippi, Tennessee and Texas markets. A substantial portion of construction, land development and other land loans are secured by real estate in markets in which Trustmark is located. Accordingly, the ultimate collectability of a substantial portion of these loans and the recovery of a substantial portion of the carrying amount of other real estate owned, are susceptible to changes in market conditions in these areas.

Changes in the allowance for loan losses were as follows for the periods presented (\$ in thousands):

Three Months Ended  
March 31,

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	2010	2009
Beginning balance	\$103,662	\$94,922
Loans charged-off	(19,775 )	(14,015 )
Recoveries	2,661	2,585
Net charge-offs	(17,114 )	(11,430 )
Provision for loan losses	15,095	16,866
Balance at end of period	\$101,643	\$100,358



At March 31, 2010 and December 31, 2009, the carrying amounts of nonaccrual loans, which are considered for impairment analysis were \$165.5 million and \$141.2 million, respectively. When a loan is deemed impaired, the full difference between the carrying amount of the loan and the most likely estimate of the asset's fair value less cost to sell, is charged-off. At March 31, 2010 and December 31, 2009, specifically evaluated impaired loans totaled \$91.3 million and \$74.2 million, respectively. The allowance for loan losses included a specific reserve for impaired loans of \$4.1 million and \$3.2 million at March 31, 2010 and December 31, 2009, respectively. Specific charge-offs related to impaired loans totaled \$9.8 million and \$4.9 million while the provisions charged to net income totaled \$1.8 million and \$3.0 million for the first quarter of 2010 and 2009, respectively.

At March 31, 2010 and December 31, 2009, nonaccrual loans, not specifically impaired and written down to fair value less cost to sell, totaled \$74.2 million and \$67.0 million, respectively. In addition, these nonaccrual loans had allocated allowance for loan losses of \$10.5 million and \$10.0 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired or nonaccrual loans for the periods ended March 31, 2010 and December 31, 2009.

Loans past due 90 days or more totaled \$57.0 million and \$55.6 million at March 31, 2010 and December 31, 2009, respectively. Included in these amounts are \$48.6 million and \$46.7 million, respectively, of serviced loans eligible for repurchase, which are fully guaranteed by GNMA. GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings. At March 31, 2010 and December 31, 2009, Trustmark has not exercised their buy-back option on any delinquent loans serviced for GNMA.

#### Note 4 – Mortgage Banking

Trustmark recognizes as assets the rights to service mortgage loans based on the estimated fair value of the mortgage servicing rights (MSR) when loans are sold and the associated servicing rights are retained. Trustmark also incorporates a hedging strategy, which utilizes a portfolio of derivative instruments to achieve a return that would substantially offset the changes in fair value of MSR attributable to interest rates. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of MSR.

The fair value of MSR is determined using discounted cash flow techniques benchmarked against third-party valuations. Estimates of fair value involve several assumptions, including the key valuation assumptions about market expectations of future prepayment rates and discount rates. Prepayment rates are projected using an industry standard prepayment model. The model considers other key factors, such as a wide range of standard industry assumptions tied to specific portfolio characteristics such as remittance cycles, escrow payment requirements, geographic factors, foreclosure loss exposure, VA no-bid exposure, delinquency rates and cost of servicing, including base cost and cost to service delinquent mortgages. Prevailing market conditions at the time of analysis are factored into the accumulation of assumptions and determination of servicing value.

Trustmark utilizes a portfolio of derivative instruments, such as Treasury note futures contracts and exchange-traded option contracts, to achieve a fair value return that offsets the changes in fair value of MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge

accounting. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of MSR. MSR fair values represent the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging MSR fair value is measured by comparing total hedge cost to the change in fair value of the MSR attributable to interest rate changes. The impact of implementing this strategy resulted in a net positive ineffectiveness of \$1.0 million and \$2.1 million for the quarters ended March 31, 2010 and 2009, respectively. The accompanying table shows that the MSR value decreased \$3.1 million for the quarter ended March 31, 2010 primarily due to a decline in mortgage rates. Offsetting the MSR change is a \$4.1 million increase in the value of derivative instruments primarily from hedge income resulting from a steep yield curve and option premium.

The activity in MSR is detailed in the table below (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
Balance at beginning of period	\$50,513	\$42,882
Origination of servicing assets	4,518	7,205
Disposals of mortgage loans sold serviced released	(757 )	(1,836 )
Change in fair value:		
Due to market changes	(3,067 )	(352 )
Due to runoff	(1,170 )	(2,643 )
Balance at end of period	\$50,037	\$45,256

#### Note 5 – Other Real Estate

Other real estate owned is recorded at the lower of cost or estimated fair value less the estimated cost of disposition. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan losses.

For the periods presented, changes and losses, net on other real estate were as follows (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
Balance at beginning of period	\$90,095	\$38,566
Additions	13,621	7,760
Disposals	(12,120 )	(4,131 )
Writedowns	(420 )	(60 )
Balance at end of period	\$91,176	\$42,135
Losses, net on the sale of other real estate included in other expenses	\$(293 )	\$(85 )

Other real estate by type of property consisted of the following for the periods presented (\$ in thousands):

	March 31,	December
	2010	31, 2009
Construction, land development and other land loans	\$66,680	\$60,276
1-4 family residential properties	11,247	11,001
Nonfarm, nonresidential properties	7,053	7,285
Other real estate loans	6,196	11,533
Total other real estate	\$91,176	\$90,095

Other real estate by geographic location consisted of the following for the periods presented (\$ in thousands):

	March 31,	December
	2010	31, 2009
Florida	\$40,145	\$45,927

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Mississippi (1)	23,082	22,373
Tennessee (2)	9,769	10,105
Texas	18,180	11,690
Total other real estate	\$91,176	\$90,095

(1) - Mississippi includes Central and Southern Mississippi Region

(2) - Tennessee includes Memphis, Tennessee and Northern Mississippi Region

## Note 6 – Deposits

Deposits consisted of the following for the periods presented (\$ in thousands):

	March 31, 2010	December 31, 2009
Noninterest-bearing demand deposits	\$1,511,080	\$1,685,187
Interest-bearing demand	1,406,824	1,261,181
Savings	1,903,118	1,821,366
Time	2,326,031	2,420,731
Total	\$7,147,053	\$7,188,465

## Note 7 – Defined Benefit and Other Postretirement Benefits

## Capital Accumulation Plan

Trustmark maintains a noncontributory defined benefit pension plan (Trustmark Capital Accumulation Plan), which covers substantially all associates employed prior to January 1, 2007. The plan provides retirement benefits that are based on the length of credited service and final average compensation, as defined in the plan and vest upon three years of service. In an effort to control expenses, the Board voted to freeze plan benefits effective May 15, 2009. Individuals will not earn additional benefits, except for interest as required by the IRS regulations, after the effective date. Associates will retain their previously earned pension benefits.

The following table presents information regarding the plan's net periodic benefit cost for the periods presented (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
Net periodic benefit cost		
Service cost	\$ 137	\$ 55
Interest cost	1,194	1,209
Expected return on plan assets	(1,482 )	(1,509 )
Amortization of prior service credits	—	(127 )
Recognized net actuarial loss	850	750
Net periodic benefit cost	\$ 699	\$ 378

The acceptable range of contributions to the plan is determined each year by the plan's actuary. Trustmark's policy is to fund amounts allowable for federal income tax purposes. In 2010, Trustmark's minimum required contribution is expected to be zero. For 2009, the minimum required contribution was also zero. The actual amount of the contribution will be determined based on the plan's funded status and return on plan assets as of the measurement date, which is December 31. Trustmark does not expect to make any contributions during the remainder of 2010.

## Supplemental Retirement Plan

Trustmark maintains a nonqualified supplemental retirement plan covering directors that elect to defer fees, and covered salary for key executive officers and senior officers. Effective March 1, 2010, the directors could no longer make future deferrals into the plan, while their vested benefits were frozen. The plan provides for retirement benefits

based on a participant's deferred fees and/or covered salary. Trustmark has acquired life insurance contracts on the participants covered under the plan, which may be used to fund future payments under the plan. The measurement date for the plan is December 31. The following table presents information regarding the plan's net periodic benefit cost for the periods presented (\$ in thousands):

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	Three months ended March 31,	
	2010	2009
Net periodic benefit cost		
Service cost	\$ 187	\$ 233
Interest cost	560	552
Amortization of prior service cost	37	37
Recognized net actuarial loss	89	59
Net periodic benefit cost	\$873	\$881

#### Note 8 – Stock and Incentive Compensation Plans

Trustmark has granted and currently has outstanding, stock and incentive compensation awards subject to the provisions of the 1997 Long Term Incentive Plan (the 1997 Plan) and the 2005 Stock and Incentive Compensation Plan (the 2005 Plan). New awards have not been issued under the 1997 Plan since it was replaced by the 2005 Plan. The 2005 Plan is designed to provide flexibility to Trustmark regarding its ability to motivate, attract and retain the services of key associates and directors. The 2005 Plan allows Trustmark to make grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance units to key associates and directors.

#### Stock Option Grants

Stock option awards under the 2005 Plan are granted with an exercise price equal to the market price of Trustmark's stock on the date of grant. Stock options granted under the 2005 Plan vest 20% per year and have a contractual term of seven years. Stock option awards, which were granted under the 1997 Plan, had an exercise price equal to the market price of Trustmark's stock on the date of grant, vested equally over four years with a contractual ten-year term. Compensation expense for stock options granted under these plans is estimated using the fair value of each option granted using the Black-Scholes option-pricing model and is recognized on the straight-line method over the requisite service period. During the first three months of 2010, there were no grants of stock option awards.

#### Restricted Stock Grants

#### Performance Awards

Trustmark's performance awards are granted to Trustmark's executive and senior management team, as well as Trustmark's Board of Directors. Performance awards granted vest based on performance goals of return on average tangible equity (ROATE) or return on average equity (ROAE) and total shareholder return (TSR) compared to a defined peer group. Awards based on TSR are valued utilizing a Monte Carlo simulation to estimate fair value of the awards at the grant date, while ROATE and ROAE awards are valued utilizing the fair value of Trustmark's stock at the grant date based on the estimated number of shares expected to vest. The restriction period for performance awards covers a three-year vesting period. These awards are recognized on the straight-line method over the requisite service period. These awards provide for excess time-vested shares, if performance measures exceed 100%. Any excess time-vested shares granted are restricted for an additional three-year vesting period. The restricted share agreement provides for voting rights and dividend privileges.

On January 26, 2010, Trustmark awarded 55,787 shares of performance based restricted stock to key members of its executive management team. The performance based restricted stock issued on January 16, 2007, vested on December 31, 2009. On February 22, 2010, the stock related to this grant was issued to the participants free of restriction. As a result of achieving 100% of ROATE and 100% of TSR related to the performance goals during the performance

period, 73,000 excess time-vested restricted shares were awarded and will vest at December 31, 2012.

#### Time-Vested Awards

Trustmark's time-vested awards are granted in both employee recruitment and retention and are restricted for thirty-six months from the award dates. Time-vested awards are valued utilizing the fair value of Trustmark's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period. During the first three months of 2010, Trustmark awarded 72,605 shares of time-vested restricted stock to key members of its management team and board of directors.



## Performance-Based Restricted Stock Unit Award

On January 27, 2009, Trustmark's Chairman and CEO was granted a cash-settled performance-based restricted stock unit award (the RSU award) for 23,123 units, with each unit having the value of one share of Trustmark's common stock. This award was granted in connection with an employment agreement dated November 20, 2008, that provides for in lieu of receiving an equity compensation award in 2010 or 2011, the 2009 equity compensation award to be twice the amount of a normal award, with one-half of the award being performance-based and one-half service-based. The RSU award was granted outside of the 2005 Plan in lieu of granting shares of performance-based restricted stock that would exceed the annual limit permitted to be granted under the 2005 Plan, in order to satisfy the equity compensation provisions of the employment agreement. Compensation expense for the RSU award is based on the fair value of Trustmark's stock at the end of each reporting period presented.

The following table presents information regarding compensation expense for Stock and Incentive plans for the periods presented (\$ in thousands):

	Three months ended March 31,	
	2010	2009
<b>Compensation expense - Stock and Incentive plans:</b>		
Stock option-based awards	\$ 163	\$ 177
Performance awards	455	468
Time-vested awards	674	876
RSU award (share price: \$24.43 - 2010; \$18.38 - 2009)	158	94
Total stock and incentive plan compensation expense	\$ 1,450	\$ 1,615

## Note 9 – Contingencies

## Lending Related

Letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third party. Trustmark issues financial and performance standby letters of credit in the normal course of business in order to fulfill the financing needs of its customers. A financial standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral, which are followed in the lending process. At March 31, 2010 and 2009, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was \$192.1 million and \$174.8 million, respectively. These amounts consist primarily of commitments with maturities of less than three years, which have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of March 31, 2010, the fair value of collateral held was \$57.6 million.

## Legal Proceedings

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in a purported class action complaint that was filed on August 23, 2009 in the District Court of Harris County, Texas, by Peggy Roif Rotstain, Guthrie Abbott, Catherine Burnell, Steven Queyrouze, Jaime Alexis Arroyo Bornstein and Juan C. Olano, on behalf of themselves and all others similarly situated, naming TNB and four other financial institutions unaffiliated with the Company as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount

of fees received by each defendant from entities controlled by R. Allen Stanford (collectively, the “Stanford Financial Group”) and (ii) damages allegedly attributable to alleged conspiracies by one or more of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud arising from the facts set forth in pending federal criminal indictments and civil complaints against Mr. Stanford, other individuals and the Stanford Financial Group. Plaintiffs have demanded a jury trial. In November 2009, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings.

TNB’s relationship with the Stanford Financial Group began as a result of Trustmark’s acquisition of a Houston-based bank in August 2006, and consisted of correspondent banking and other traditional banking services in the ordinary course of business. The lawsuit is in its preliminary stage and has been previously reported in the press. Trustmark believes that the lawsuit is entirely without merit and intends to defend vigorously against it.

Trustmark and its subsidiaries are also parties to other lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to the lending, collection, servicing, investment, trust and other business activities, and some of the lawsuits allege substantial claims for damages. The cases are being vigorously contested. In the regular course of business, Management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever Management believes that such losses are probable and can be reasonably estimated. At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that the final resolution of pending legal proceedings will not have a material impact on Trustmark's consolidated financial position or results of operations; however, Management is unable to estimate a range of potential loss on these matters because of the nature of the legal environment in states where Trustmark conducts business.

#### Note 10 – Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted-average shares of common stock outstanding, adjusted for the effect of potentially dilutive stock awards outstanding during the period. Weighted-average antidilutive stock awards for the three months ended March 31, 2010 and 2009 totaled 1.273 million and 1.829 million, respectively, and accordingly, were excluded in determining diluted earnings per share. The following table reflects weighted-average shares used to calculate basic and diluted EPS for the periods presented (in thousands):

	Three Months Ended March 31,	
	2010	2009
Basic shares	63,743	57,351
Dilutive shares	190	47
Diluted shares	63,933	57,398

#### Note 11 – Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. The following table reflects specific transaction amounts for the periods presented (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
Income taxes paid	\$375	\$6,280
Interest expense paid on deposits and borrowings	16,543	24,293
Noncash transfers from loans to foreclosed properties	13,621	7,759

#### Note 12 – Shareholders' Equity

##### Common Stock Offering

On December 7, 2009, Trustmark completed a public offering of 6,216,216 shares of its common stock, including 810,810 shares issued pursuant to the exercise of the underwriters' over-allotment option, at a price of \$18.50 per share. Trustmark received net proceeds of approximately \$109.3 million after deducting underwriting discounts, commissions and estimated offering expenses. Proceeds from this offering were used in the redemption of preferred stock discussed below.

## Repurchase of Preferred Stock

On November 21, 2008, Trustmark issued 215,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (Senior Preferred Stock) to the U.S. Treasury (Treasury) in a private placement transaction as part of the Troubled Assets Relief Program Capital Purchase Program (TARP CPP), a voluntary initiative for healthy U.S. financial institutions. As part of its participation in the TARP CPP, Trustmark also issued to the Treasury a ten-year warrant (the Warrant) to purchase up to 1,647,931 shares of Trustmark's common stock, at an initial exercise price of \$19.57 per share, subject to customary anti-dilution adjustments.

On December 9, 2009, Trustmark completed the repurchase of its 215,000 shares of Senior Preferred Stock from the Treasury at a purchase price of \$215.0 million plus a final accrued dividend of \$716.7 thousand. The repurchase of the Senior Preferred Stock resulted in a one-time, non-cash charge of approximately \$8.2 million to net income available to common shareholders in Trustmark's fourth quarter financial statements for the unaccreted discount recorded at the date of issuance of the Senior Preferred Stock. In addition, on December 30, 2009, Trustmark repurchased in full from the Treasury, the Warrant to purchase 1,647,931 shares of Trustmark's common stock, which was issued to the Treasury pursuant to the TARP CPP. The purchase price paid by Trustmark to the Treasury for the Warrant was its fair value of \$10.0 million.

## Regulatory Capital

Trustmark and TNB are subject to minimum capital requirements, which are administered by various federal regulatory agencies. These capital requirements, as defined by federal guidelines, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB. As of March 31, 2010, Trustmark and TNB have exceeded all of the minimum capital standards for the parent company and its primary banking subsidiary as established by regulatory requirements. In addition, TNB has met applicable regulatory guidelines to be considered well-capitalized at March 31, 2010. To be categorized in this manner, TNB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the accompanying table. There are no significant conditions or events that have occurred since March 31, 2010, which Management believes have affected TNB's present classification.

Trustmark's and TNB's actual regulatory capital amounts and ratios are presented in the table below (\$ in thousands):

	Actual Regulatory Capital		Minimum Regulatory Capital Required			Minimum Regulatory Provision to be Well-Capitalized		
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
At March 31, 2010:								
Total Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$1,020,382	15.15	%	\$538,967	8.00	%	n/a	n/a
Trustmark National								
Bank	975,642	14.67	%	531,949	8.00	%	\$664,936	10.00 %
Tier 1 Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$886,171	13.15	%	\$269,483	4.00	%	n/a	n/a
Trustmark National								
Bank	844,566	12.70	%	265,975	4.00	%	\$398,962	6.00 %
Tier 1 Capital (to Average Assets)								
Trustmark Corporation	\$886,171	9.81	%	\$270,868	3.00	%	n/a	n/a
Trustmark National								
Bank	844,566	9.50	%	266,790	3.00	%	\$444,651	5.00 %
At December 31, 2009:								
Total Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$1,008,980	14.58	%	\$553,504	8.00	%	n/a	n/a
Trustmark National								
Bank	967,224	14.16	%	546,344	8.00	%	\$682,930	10.00 %
Tier 1 Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$872,509	12.61	%	\$276,752	4.00	%	n/a	n/a

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Trustmark National Bank	834,056	12.21	%	273,172	4.00	%	\$409,758	6.00	%
Tier 1 Capital (to Average Assets)									
Trustmark Corporation	\$872,509	9.74	%	\$268,868	3.00	%	n/a	n/a	
Trustmark National Bank	834,056	9.45	%	264,817	3.00	%	\$441,361	5.00	%

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## Accumulated Other Comprehensive Income (Loss)

The following table presents the components of accumulated other comprehensive income (loss) and the related tax effects allocated to each component for the periods ended March 31, 2010 and 2009 (\$ in thousands):

	Before-Tax Amount	Tax Effect	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2010	\$ (2,596 )	\$ 972	\$ (1,624 )
Unrealized holding gains on AFS arising during period	9,411	(3,600 )	5,811
Adjustment for net gains realized in net income	(369 )	141	(228 )
Pension and other postretirement benefit plans	818	(313 )	505
Balance, March 31, 2010	\$ 7,264	\$ (2,800 )	\$ 4,464
Balance, January 1, 2009	\$ (23,800 )	\$ 9,083	\$ (14,717 )
Unrealized holding losses on AFS arising during period	14,891	(5,696 )	9,195
Adjustment for net gains realized in net income	(30 )	11	(19 )
Pension and other postretirement benefit plans	719	(275 )	444
Balance, March 31, 2009	\$ (8,220 )	\$ 3,123	\$ (5,097 )

## Note 13 – Other Noninterest Expense

Other noninterest expense consisted of the following for the periods presented (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
FDIC assessment expense	\$ 3,147	\$ 2,777
ORE/Foreclosure expense	3,011	630
Other expense	7,757	8,231
Total other expense	\$ 13,915	\$ 11,638

## Note 14 – Fair Value

## Fair Value Measurements

FASB ASC Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. Depending on the nature of the asset or liability, Trustmark uses various valuation techniques and assumptions when estimating fair value. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that Trustmark has the ability to access at the measurement date.

Level 2 Inputs – Valuation is based upon quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates and inputs that are derived principally from or corroborated by observable market data.

Level 3 Inputs – Unobservable inputs reflecting the reporting entity’s own determination about the assumptions that market participants would use in pricing the asset or liability based on the best information available.



#### Financial Instruments Measured at Fair Value

The methodologies Trustmark uses in determining the fair values are based primarily on the use of independent, market-based data to reflect a value that would be reasonably expected upon exchange of the position in an orderly transaction between market participants at the measurement date. The large majority of assets that are stated at fair value are of a nature that can be valued using prices or inputs that are readily observable through a variety of independent data providers. The providers selected by Trustmark for fair valuation data are widely recognized and accepted vendors whose evaluations support the pricing functions of financial institutions, investment and mutual funds, and portfolio managers. Trustmark has documented and evaluated the pricing methodologies used by the vendors and maintains internal processes that regularly test valuations for anomalies.

Trustmark utilizes an independent pricing service to advise it on the carrying value of the securities available for sale portfolio. As part of Trustmark's procedures, the price provided from the service is evaluated for reasonableness given market changes. When a questionable price exists, Trustmark investigates further to determine if the price is valid. If needed, other market participants may be utilized to determine the correct fair value. Trustmark has also reviewed and confirmed its determinations in thorough discussions with the pricing source regarding their methods of price discovery.

Mortgage loan commitments are valued based on the securities prices of similar collateral, term, rate and delivery for which the loan is eligible to deliver in place of the particular security. Trustmark acquires a broad array of mortgage security prices that are supplied by a market data vendor, which in turn accumulates prices from a broad list of securities dealers. Prices are processed through a mortgage pipeline management system that accumulates and segregates all loan commitment and forward-sale transactions according to the similarity of various characteristics (maturity, term, rate, and collateral). Prices are matched to those positions that are deemed to be an eligible substitute or offset (i.e., "deliverable") for a corresponding security observed in the market place.

Trustmark estimates fair value of MSR through the use of prevailing market participant assumptions and market participant valuation processes. This valuation is periodically tested and validated against other third-party firm valuations.

At this time, Trustmark presents no fair values that are derived through internal modeling. Should positions requiring fair valuation arise that are not relevant to existing methodologies, Trustmark will make every reasonable effort to obtain market participant assumptions, or independent evaluation.

## Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value (\$ in thousands):

	March 31, 2010			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	\$68,592	\$—	\$68,592	\$—
Obligations of states and political subdivisions	123,292	—	123,292	—
Mortgage-backed securities	1,508,515	—	1,508,515	—
Corporate debt securities	6,166	—	6,166	—
Securities available for sale	1,706,565	—	1,706,565	—
Loans held for sale	176,682	—	176,682	—
Mortgage servicing rights	50,037	—	—	50,037
Other assets - derivatives:				
Futures contracts	(1,206 )	(1,206 )	—	—
Exchange traded purchased options	83	83	—	—
Over-the-counter written options (rate locks)	172	—	—	172
Other liabilities - derivatives:				
Exchange traded written options	1,331	1,331	—	—
Forward contracts	(311 )	—	(311 )	—
	December 31, 2009			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	\$47,937	\$—	\$47,937	\$—
Obligations of states and political subdivisions	117,508	—	117,508	—
Mortgage-backed securities	1,512,762	—	1,512,762	—
Corporate debt securities	6,189	—	6,189	—
Securities available for sale	1,684,396	—	1,684,396	—
Loans held for sale	226,225	—	226,225	—
Mortgage servicing rights	50,513	—	—	50,513
Other assets - derivatives:				
Futures contracts	(3,873 )	(3,873 )	—	—
Exchange traded purchased options	312	312	—	—
Over-the-counter written options (rate locks)	(61 )	—	—	(61 )
Other liabilities - derivatives:				
Exchange traded written options	935	935	—	—
Forward contracts	(2,156 )	—	(2,156 )	—

The changes in Level 3 assets measured at fair value on a recurring basis as of March 31, 2010 and 2009 are summarized as follows (\$ in thousands):

	MSR	Other Assets - Derivatives
Balance, January 1, 2010	\$ 50,513	\$ (61)
Total net gains included in net income	3,761	557
Purchases, sales, issuances and settlements, net	(4,237)	(324)
Balance, March 31, 2010	\$ 50,037	\$ 172
The amount of total (losses) gains for the period included in earnings that are attributable to the change in unrealized gains or losses still held at March 31, 2010		
	\$ (3,067)	\$ 18
Balance, January 1, 2009	\$ 42,882	\$ 1,433
Total net (losses) gains included in net income	(2,995)	3,640
Purchases, sales, issuances and settlements, net	5,369	(2,671)
Balance, March 31, 2009	\$ 45,256	\$ 2,402
The amount of total (losses) gains for the period included in earnings that are attributable to the change in unrealized gains or losses still held at March 31, 2009		
	\$ (352)	\$ 15

Trustmark may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. Assets at March 31, 2010, which have been measured at fair value on a nonrecurring basis, include impaired loans. Loans for which it is probable Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement are considered impaired. Specific allowances for impaired loans are based on comparisons of the recorded carrying values of the loans to the present value of the estimated cash flows of these loans at each loan's original effective interest rate, the fair value of the collateral or the observable market prices of the loans. At March 31, 2010, Trustmark had outstanding balances of \$91.3 million in impaired loans that were specifically identified for evaluation and written down to fair value of the underlying collateral less cost to sell based on the fair value of the collateral or other unobservable input compared with \$74.2 million at December 31, 2009. These impaired loans are classified as Level 3 in the fair value hierarchy.

#### Nonfinancial Assets and Liabilities

Certain nonfinancial assets measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment), nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other nonfinancial long-lived assets measured at fair value for impairment assessment.

Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 3 inputs based on adjusted observable market data. Foreclosed assets measured at fair value upon initial recognition totaled \$13.6 million (utilizing Level 3 valuation inputs) during the three months ended March 31, 2010 compared with \$7.8 million for the same time period in 2009. In connection with the measurement and initial recognition of the foregoing foreclosed assets, Trustmark recognized charge-offs of

the allowance for possible loan losses totaling \$1.4 million and \$784 thousand for the first quarter of 2010 and 2009, respectively. Other than foreclosed assets measured at fair value upon initial recognition, \$1.5 million of foreclosed assets were remeasured during the first three months of 2010, requiring write-downs of \$420 thousand to reach their current fair values. No foreclosed assets, other than foreclosed assets measured at fair value upon initial recognition, were remeasured at fair value during the three months ended March 31, 2009.

## Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments at March 31, 2010 and December 31, 2009, are as follows (\$ in thousands):

	March 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets:</b>				
Cash and short-term investments	\$203,572	\$203,572	\$219,893	\$219,893
Securities available for sale	1,706,565	1,706,565	1,684,396	1,684,396
Securities held to maturity	215,888	223,137	232,984	240,674
Loans held for sale	176,682	176,682	226,225	226,225
Net loans	6,069,235	6,139,172	6,216,135	6,269,054
Other assets - derivatives	(951 )	(951 )	(3,622 )	(3,622 )
<b>Financial Liabilities:</b>				
Deposits	7,147,053	7,156,917	7,188,465	7,198,796
Short-term liabilities	704,495	704,495	906,989	906,989
Long-term FHLB advances	75,000	75,000	75,000	75,000
Subordinated notes	49,782	46,500	49,774	48,661
Junior subordinated debt securities	70,104	34,640	70,104	32,536
Other liabilities - derivatives	1,020	1,020	(1,221 )	(1,221 )

In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. Trustmark's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot be necessarily substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of Trustmark.

The fair values of net loans are estimated for portfolios of loans with similar financial characteristics. For variable rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values of certain mortgage loans, such as 1-4 family residential properties, are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of other types of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The processes for estimating the fair value of net loans described above does not represent an exit price under FASB ASC Topic 820 and such an exit price could potentially produce a different fair value estimate at March 31, 2010.

A detailed description of the valuation methodologies used in estimating the fair value of financial instruments can be found in Note 17 included in Item 8 of Trustmark's Form 10-K Annual Report for the year ended December 31, 2009.

## Note 15 – Derivative Financial Instruments

Trustmark maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. Trustmark's interest rate risk management strategy involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Under the guidelines of FASB ASC Topic 815, "Derivatives and Hedging," all derivative instruments are required to be recognized as either assets or liabilities and be carried at fair value on the balance sheet. The fair value of derivative positions outstanding is included in other assets and/or other liabilities in the accompanying consolidated balance sheets and in the net change in these financial statement line items in the accompanying consolidated statements of cash flows as well as included in noninterest income in mortgage banking, net in the accompanying consolidated statements of income.

### Derivatives Designated as Hedging Instruments

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. These derivative instruments are designated as fair value hedges of these transactions that qualify as fair value hedges under FASB ASC Topic 815, the ineffective portion of changes in the fair value of the forward contracts and changes in the fair value of the loans designated as loans held for sale are recorded in noninterest income in mortgage banking, net. Trustmark's off-balance sheet obligations under these derivative instruments totaled \$145.5 million at March 31, 2010, with a positive valuation adjustment of \$311 thousand, compared to \$188.1 million, with a positive valuation adjustment of \$2.2 million as of December 31, 2009.

### Derivatives not Designated as Hedging Instruments

Trustmark utilizes a portfolio of derivative instruments, such as Treasury note futures contracts and exchange-traded option contracts, to achieve a fair value return that offsets the changes in fair value of MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of MSR. MSR fair values represent the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging MSR fair value is measured by comparing total hedge cost to the change in fair value of the MSR attributable to interest rate changes. The impact of implementing this strategy resulted in a net positive ineffectiveness of \$1.0 million and \$2.1 million for the quarters ended March 31, 2010 and 2009, respectively.

Trustmark also utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified time period. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of forward sales contracts. Trustmark's off-balance sheet obligations under these derivative instruments totaled \$99.5 million at March 31, 2010, with a positive valuation adjustment of \$172 thousand, compared to \$78.9 million, with a negative valuation adjustment of \$61 thousand as of December 31, 2009.

### Tabular Disclosures

The following tables disclose the fair value of derivative instruments in Trustmark's balance sheets as well as the effect of these derivative instruments on Trustmark's results of operations for the periods presented:

#### Fair Value of Derivative Instruments (\$ in thousands)

	March 31, 2010	December 31, 2009
<b>Derivatives in net hedging relationships</b>		
Interest rate contracts:		
Forward contracts included in other liabilities	\$(311 )	\$(2,156 )
<b>Derivatives not designated as hedging instruments</b>		
Interest rate contracts:		

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Futures contracts included in other assets	\$(1,206	) \$(3,873	)
Exchange traded purchased options included in other assets	83	312	
OTC written options (rate locks) included in other assets	172	(61	)
Exchange traded written options included in other liabilities	1,331	935	

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	Three Months Ended March 31,	
	2010	2009
Derivatives in net hedging relationships		
Amount of loss recognized in mortgage banking, net	\$(1,845 )	\$(1,415 )
Derivatives not designated as hedging instruments		
Amount of gain recognized in mortgage banking, net	\$4,340	\$3,377

#### Note 16 – Segment Information

Trustmark’s management reporting structure includes three segments: General Banking, Wealth Management and Insurance. General Banking is primarily responsible for all traditional banking products and services, including loans and deposits. The General Banking Division also consists of internal operations such as Human Resources, Executive Administration, Treasury (Funds Management), Public Affairs and Corporate Finance. The Wealth Management Division provides Trustmark’s customers with reliable guidance and sound, practical advice for accumulating, preserving and transferring wealth. Trustmark’s Insurance Division provides a full range of retail insurance products, including commercial risk management products, bonding, group benefits and personal lines coverage.

The accounting policies of each reportable segment are the same as those of Trustmark except for its internal allocations. Noninterest expenses for back-office operations support are allocated to segments based on estimated uses of those services. Trustmark measures the net interest income of its business segments with a process that assigns cost of funds or earnings credit on a matched-term basis. This process, called “funds transfer pricing”, charges an appropriate cost of funds to assets held by a business unit, or credits the business unit for potential earnings for carrying liabilities. The net of these charges and credits flows through to the General Banking segment, which contains the management team responsible for determining the bank’s funding and interest rate risk strategies.

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The following table discloses financial information by reportable segment for the periods ended March 31, 2010 and 2009 (\$ in thousands):

	Three Months Ended March 31,	
	2010	2009
<b>General Banking</b>		
Net interest income	\$ 86,312	\$ 87,487
Provision for loan losses	15,088	16,923
Noninterest income	26,049	29,936
Noninterest expense	65,831	63,646
Income before income taxes	31,442	36,854
Income taxes	9,852	12,551
General banking net income	\$ 21,590	\$ 24,303
<b>Selected Financial Information</b>		
Average assets	\$ 9,224,942	\$ 9,660,675
Depreciation and amortization	\$ 5,587	\$ 6,875
<b>Wealth Management</b>		
Net interest income	\$ 1,051	\$ 982
Provision for loan losses	7	(57)
Noninterest income	5,573	5,743
Noninterest expense	5,085	5,026
Income before income taxes	1,532	1,756
Income taxes	516	631
Wealth management net income	\$ 1,016	\$ 1,125
<b>Selected Financial Information</b>		
Average assets	\$ 92,856	\$ 99,208
Depreciation and amortization	\$ 68	\$ 72
<b>Insurance</b>		
Net interest income	\$ 55	\$ 80
Provision for loan losses	—	—
Noninterest income	6,747	7,325
Noninterest expense	5,445	5,735
Income before income taxes	1,357	1,670
Income taxes	508	613
Insurance net income	\$ 849	\$ 1,057
<b>Selected Financial Information</b>		
Average assets	\$ 17,040	\$ 17,931
Depreciation and amortization	\$ 143	\$ 106
<b>Consolidated</b>		
Net interest income	\$ 87,418	\$ 88,549
Provision for loan losses	15,095	16,866
Noninterest income	38,369	43,004
Noninterest expense	76,361	74,407

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Income before income taxes	34,331	40,280
Income taxes	10,876	13,795
Consolidated net income	\$ 23,455	\$ 26,485
Selected Financial Information		
Average assets	\$ 9,334,838	\$ 9,777,814
Depreciation and amortization	\$ 5,798	\$ 7,053

#### Accounting Policies Recently Adopted and Pending Accounting Pronouncements

ASU 2010-09, “Amendments to Certain Recognition and Disclosure Requirements.” In February 2010, the FASB issued Accounting Standards Update (ASU) 2010-09, to address potential practice issues associated with FASB ASC Topic 855 (Statement 165). The ASU eliminates the requirement for SEC filers to disclose the date through which subsequent events have been evaluated in originally issued and reissued financial statements. This change was immediately effective.

ASU 2010-06, “Improving Disclosures about Fair Value Measurements.” In January 2010, the FASB issued ASU 2010-06, which requires additional disclosures related to the transfers in and out of fair value hierarchy and the activity of Level 3 financial instruments. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company’s should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for Trustmark beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for Trustmark on January 1, 2010 and are reported in Note 14 – Fair Value.

SFAS No. 167, “Amendments to FASB Interpretation No. 46(R).” In June 2009, the FASB issued SFAS No. 167, codified as ASU 2009-17, which modifies how a company determines when an variable interest entity (VIE) that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate a VIE is based on, among other things, the VIE’s purpose and design and a company’s ability to direct the activities of the VIE that most significantly impact the VIE’s economic performance. ASU 2009-17 requires additional disclosures about the reporting entity’s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity’s financial statements. ASU 2009-17 became effective for Trustmark’s financial statements on January 1, 2010 and the adoption did not have a significant impact on Trustmark’s financial statements.

SFAS No. 166, “Accounting for Transfers of Financial Assets.” In June 2009, the FASB issued SFAS No. 166, codified as ASU 2009-16, which amended ASC Topic 860, “Transfers and Servicing,” to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminated the concept of a “qualifying special-purpose entity” and changed the requirements for derecognizing financial assets. ASU 2009-16 also required additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. ASU 2009-16 also modified the criteria that must be met in order for a transfer of a portion of a financial asset, such as a loan participation, to qualify for sale accounting. ASU 2009-16 became effective for Trustmark’s financial statements on January 1, 2010 and the adoption did not have a significant impact on Trustmark’s financial statements.



Trustmark Corporation (Trustmark), a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark's principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At March 31, 2010, TNB had total assets of \$9.2 billion, which represents approximately 99% of the consolidated assets of Trustmark.

Through TNB and its other subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through approximately 150 offices and 2,506 full-time equivalent associates located in the states of Mississippi, Tennessee (in Memphis and the Northern Mississippi region, which is collectively referred to herein as Trustmark's Tennessee market), Florida (primarily in the northwest or "Panhandle" region of that state) and Texas (primarily in Houston, which is referred to herein as Trustmark's Texas market). The principal products produced and services rendered by TNB and Trustmark's other subsidiaries are as follows:

## Trustmark National Bank

Commercial Banking – TNB provides a full range of commercial banking services to corporations and other business customers. Loans are provided for a variety of general corporate purposes, including financing for commercial and industrial projects, income producing commercial real estate, owner-occupied real estate and construction and land development. TNB also provides deposit services, including checking, savings and money market accounts and certificates of deposit as well as treasury management services.

Consumer Banking – TNB provides banking services to consumers, including checking, savings, and money market accounts as well as certificates of deposit and individual retirement accounts. In addition, TNB provides consumer customers with installment and real estate loans and lines of credit.

Mortgage Banking – TNB provides mortgage banking services, including construction financing, production of conventional and government insured mortgages, secondary marketing and mortgage servicing. At March 31, 2010, TNB's mortgage loan portfolio totaled approximately \$1.0 billion, while its portfolio of mortgage loans serviced for others, including, FNMA, FHLMC and GNMA, totaled approximately \$4.3 billion.

Wealth Management and Trust Services – TNB offers specialized services and expertise in the areas of wealth management, trust, investment and custodial services for corporate and individual customers. These services include the administration of personal trusts and estates as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. TNB also provides corporate trust and institutional custody, securities brokerage, financial and estate planning, retirement plan services as well as life insurance and other risk management services provided by TRMK Risk Management, Inc. (TRMI). TRMI engages in individual insurance product sales as a broker of life and long-term care insurance for wealth management customers. TNB's wealth management division is also served by Trustmark Investment Advisors, Inc. (TIA), a Securities and Exchange Commission (SEC)-registered investment adviser. TIA provides customized investment management services for TNB customers and also serves as investment advisor to The Performance Funds, a proprietary family of mutual funds. At March 31, 2010, assets under management and administration totaled \$7.3 billion.

Insurance – TNB provides a competitive array of insurance solutions for business and individual risk management needs. Business insurance offerings include services and specialized products for medical professionals, construction, manufacturing, hospitality, real estate and group life and health plans. Individual customers are also provided life and health insurance, and personal line policies. TNB provides these services through The Bottrell Insurance Agency, Inc. (Bottrell), which is based in Jackson, Mississippi, and Fisher-Brown, Incorporated (Fisher-Brown), headquartered in Pensacola, Florida.

## Somerville Bank & Trust Company

Somerville Bank & Trust Company (Somerville), headquartered in Somerville, Tennessee, provides banking services in the eastern Memphis metropolitan statistical area (MSA) through five offices. At March 31, 2010, Somerville had total assets of \$183 million.

## Capital Trusts

Trustmark Preferred Capital Trust I (Trustmark Trust) is a Delaware trust affiliate formed in 2006 to facilitate a private placement of \$60.0 million in trust preferred securities. Republic Bancshares Capital Trust I (Republic Trust) is a Delaware trust affiliate acquired as the result of Trustmark's 2006 acquisition of Republic Bancshares of Texas, Inc. Republic Trust was formed to facilitate the issuance of \$8.0 million in trust preferred securities. As defined in applicable accounting standards, both Trustmark Trust and Republic Trust are considered variable interest entities for

which Trustmark is not the primary beneficiary. Accordingly, the accounts of both trusts are not included in Trustmark's consolidated financial statements.

#### Executive Overview

During the first three months of 2010, the national economy showed signs of strengthening as seen by the third straight quarterly gain in economic performance. Still, first quarter growth of 3.2% was weaker than in the fourth quarter of last year, when the economy grew at 5.6%. The initial estimate of the first quarter Gross Domestic Product data recently released by Commerce Department shows important signs of continued U.S. economic recovery, but most economists agree that it will take a considerable amount of time to return to full economic health and full employment.



Management has continued to carefully monitor the impact of illiquidity in the financial markets, declining values of securities and other assets, loan performance, default rates and other financial and macro-economic indicators, in order to navigate the challenging economic environment. In order to reduce exposure to certain loan categories, Management has continued to reduce certain loan classifications, including construction, land development and other land loans and indirect auto loans. During the first three months of 2010 and throughout 2009, Trustmark and TNB's capital ratios exceeded the minimum levels required for it to be ranked well-capitalized, both prior to and after Trustmark's participation in the U.S. Treasury's TARP CPP.

Trustmark did not make significant changes to its loan underwriting standards during the first three months of 2010. Trustmark's willingness to make loans to qualified applicants that meet its traditional, prudent lending standards has not changed. However, TNB has revised its concentration limits of commercial real estate loans, which adheres to its primary regulator's guidelines. As a result, TNB has been cautious in granting credit involving certain categories of real estate, particularly in Florida. Furthermore, in the current economic downturn, TNB makes fewer exceptions to its loan policy as compared to prior periods.

Management has continued its practice of maintaining excess funding capacity to provide Trustmark with adequate liquidity for its ongoing operations. In this regard, Trustmark benefits from its strong deposit base, its highly liquid investment portfolio and its access to funding from a variety of external funding sources such as upstream Federal funds lines, Federal Reserve Discount Window, FHLB advances, and brokered deposits.

On December 7, 2009, Trustmark completed a public offering of 6,216,216 shares of its common stock, including 810,810 shares issued pursuant to the exercise of the underwriters' over-allotment option, at a price of \$18.50 per share. Trustmark received net proceeds of approximately \$109.3 million after deducting underwriting discounts, commissions and estimated offering expenses. Proceeds from this offering were used in the redemption of Senior Preferred Stock discussed below.

#### TARP Capital Purchase Program

In the fourth quarter of 2008, Trustmark chose to participate in the TARP CPP in order to reinforce its strong capital position, advance the Treasury's efforts to facilitate additional lending in the markets where Trustmark operates, maintain its competitive advantage over its less well-capitalized competitors, support its foreclosure mitigation programs and support its general operations. Trustmark's decision to participate in the TARP CPP was also affected by discussions with its regulators, including the OCC, the Federal Reserve and the Treasury. Trustmark elected to participate in the TARP CPP as a healthy, well-capitalized bank.

As a participant in the TARP CPP, on November 21, 2008, Trustmark issued to the Treasury 215,000 shares of Senior Preferred Stock, as well as a ten-year warrant (the Warrant) to purchase up to 1,647,931 shares of Trustmark's common stock, at an initial exercise price of \$19.57 per share, subject to customary anti-dilution adjustments.

In the fourth quarter of 2009, Trustmark exited the TARP CPP. Following discussions with its federal banking regulators and the completion of the public offering of common stock discussed above, Trustmark redeemed all the Senior Preferred Stock from the Treasury on December 9, 2009. The amount paid by Trustmark to redeem the Senior Preferred Stock consisted of \$215.0 million, which was equivalent to both the original issuance price and the liquidation value of the Senior Preferred Stock, plus a final accrued dividend of approximately \$716.7 thousand. As a result of the redemption of the Senior Preferred Stock, in the fourth quarter of 2009, Trustmark incurred a one-time, non-cash charge of \$8.2 million to net income available to common shareholders for the unaccreted discount recorded at the date of issuance of the Senior Preferred Stock. On December 30, 2009, Trustmark repurchased the Warrant from the Treasury for its fair value of \$10.0 million.

### Critical Accounting Policies

Trustmark's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and follow general practices within the financial services industry. Application of these accounting principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, actual financial results could differ from those estimates.

Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. There have been no changes in Trustmark's critical accounting estimates during the first three months of 2010.

## Financial Highlights

Trustmark's net income available to common shareholders totaled \$23.5 million in the first quarter of 2010, which represented basic earnings per common share of \$0.37. Trustmark's net income for the first quarter of 2010 produced a return on average tangible common equity of 11.98%. Trustmark's Board of Directors declared a quarterly cash dividend of \$0.23 per common share, which is payable June 15, 2010, to shareholders of record on June 1, 2010.

Net income available to common shareholders for the three months ended March 31, 2010, increased \$96 thousand, or 0.4% when compared to the same time period in 2009. The slight increase was primarily the result of preferred stock dividends and the accretion of preferred stock discount during the first three months of 2009, which reduced net income available to common shareholders by approximately \$3.1 million. Excluding preferred stock dividends and the accretion of preferred stock discount, net income decreased \$3.0 million, or 11.4%, compared to the same time period in 2009. This decline resulted from decreases in both net interest income and noninterest income of \$1.1 million and \$4.6 million, respectively, and was partially offset by a decrease in the loan loss provision of \$1.8 million. The decrease in noninterest income was due largely to the reduction in mortgage banking income of \$4.8 million, which resulted from a significant reduction in mortgage production when the first three months of 2010 is compared to the same time period in 2009. The growth in noninterest expense primarily resulted from an increase in other expense of \$2.3 million, which can be attributed to increased costs related to real estate foreclosure expenses. For additional information on the changes in noninterest income and noninterest expense, please see accompanying sections included in Results of Operations.

At March 31, 2010, nonperforming assets totaled \$256.7 million, an increase of \$25.4 million, or 11.0%, compared to December 31, 2009, and total nonaccrual loans were \$165.5 million, representing an increase of \$24.3 million relative to December 31, 2009. Total net charge-offs for the three months ended March 31, 2010 were \$17.1 million compared to total net charge-offs for the three months ended March 31, 2009 of \$11.4 million.

Selected Financial Data  
(\$ in thousands)

Three Months Ended March 31,	2010		2009	
<b>Consolidated Statements of Income</b>				
Total interest income	\$ 103,140		\$ 113,805	
Total interest expense	15,722		25,256	
Net interest income	87,418		88,549	
Provision for loan losses	15,095		16,866	
Noninterest income	38,369		43,004	
Noninterest expense	76,361		74,407	
Income before income taxes	34,331		40,280	
Income taxes	10,876		13,795	
Net Income	23,455		26,485	
Preferred stock dividends/discount accretion	—		3,126	
Net Income Available to Common Shareholders	\$ 23,455		\$ 23,359	
<b>Common Share Data</b>				
Basic earnings per share	\$ 0.37		\$ 0.41	
Diluted earnings per share	0.37		0.41	
Cash dividends per share	0.23		0.23	
<b>Performance Ratios</b>				
Return on average common equity	8.47	%	9.60	%
Return on average tangible common equity	11.98	%	14.46	%
Return on average total equity	8.47	%	9.01	%
Return on average assets	1.02	%	1.10	%
Net interest margin (fully taxable equivalent)	4.42	%	4.18	%
<b>Credit Quality Ratios</b>				
Net charge-offs/average loans	1.08	%	0.66	%
Provision for loan losses/average loans	0.95	%	0.98	%
Nonperforming loans/total loans (incl LHFS*)	2.61	%	1.94	%
Nonperforming assets/total loans (incl LHFS*) plus ORE**	3.99	%	2.53	%
Allowance for loan losses/total loans (excl LHFS*)	1.65	%	1.51	%
<b>March 31,</b>				
<b>Consolidated Balance Sheets</b>				
Total assets	\$ 9,293,215		\$ 9,775,714	
Securities	1,922,453		1,869,724	
Loans (including loans held for sale)	6,347,560		6,942,288	
Deposits	7,147,053		7,156,940	

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Common shareholders' equity	1,128,529	994,804
Preferred shareholder's equity	—	205,564

Common Stock Performance

Market value - close	\$ 24.43	\$ 18.38
Common book value	17.68	17.34
Tangible common book value	12.82	11.87

Capital Ratios

Total equity/total assets	12.14	%	12.28	%
Common equity/total assets	12.14	%	10.18	%
Tangible equity/tangible assets	9.11	%	9.37	%
Tangible common equity/tangible assets	9.11	%	7.20	%
Tangible common equity/risk-weighted assets	12.15	%	9.43	%
Tier 1 leverage ratio	9.81	%	10.17	%
Tier 1 common risk-based capital ratio	12.14	%	9.55	%
Tier 1 risk-based capital ratio	13.15	%	13.34	%
Total risk-based capital ratio	15.15	%	15.28	%

\* - LHFS is Loans Held for Sale.

\*\* - ORE is Other Real Estate.

### Non-GAAP Financial Measures

In addition to capital ratios defined by GAAP and banking regulators, Trustmark utilizes various tangible common equity measures when evaluating capital utilization and adequacy. Tangible common equity, as defined by Trustmark, represents common equity less goodwill and identifiable intangible assets.

Trustmark believes these measures are important because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of Trustmark's capitalization to other organizations. These ratios differ from capital measures defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies across organizations.

These calculations are intended to complement the capital ratios defined by GAAP and banking regulators. Because GAAP does not include these capital ratio measures, Trustmark believes there are no comparable GAAP financial measures to these tangible common equity ratios. Despite the importance of these measures to Trustmark, there are no standardized definitions for them and, as a result, Trustmark's calculations may not be comparable with other organizations. In addition, there may be limits in the usefulness of these measures to investors. As a result, Trustmark encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure. The following table reconciles Trustmark's calculation of these measures to amounts reported under GAAP.

Reconciliation of Non-GAAP Financial  
Measures  
(\$ in thousands)

		Three Months Ended March 31,			
		2010	2009		
<b>TANGIBLE COMMON EQUITY</b>					
<b>AVERAGE BALANCES</b>					
Total shareholders' equity		\$ 1,123,356	\$ 1,192,398		
Less:	Preferred stock	—	(205,417 )		
Total average common equity		1,123,356	986,981		
Less:	Goodwill	(291,104 )	(291,104 )		
	Identifiable intangible assets	\$ (19,484 )	\$ (23,440 )		
Total average tangible common equity		\$ 812,768	\$ 672,437		
<b>PERIOD END BALANCES</b>					
Total shareholders' equity		\$ 1,128,529	\$ 1,200,368		
Less:	Preferred stock	—	(205,564 )		
Total common equity		1,128,529	994,804		
Less:	Goodwill	(291,104 )	(291,104 )		
	Identifiable intangible assets	(18,944 )	(22,820 )		
Total tangible common equity (a)		\$ 818,481	\$ 680,880		
<b>TANGIBLE ASSETS</b>					
Total assets		\$ 9,293,215	\$ 9,775,714		
Less:	Goodwill	(291,104 )	(291,104 )		
	Identifiable intangible assets	(18,944 )	(22,820 )		
Total tangible assets (b)		\$ 8,983,167	\$ 9,461,790		
Risk-weighted assets (c)		\$ 6,737,084	\$ 7,216,846		
<b>NET INCOME ADJUSTED FOR INTANGIBLE AMORTIZATION</b>					
Net income available to common shareholders		\$ 23,455	\$ 23,359		
Plus:	Intangible amortization net of tax	545	618		
Net income adjusted for intangible amortization		\$ 24,000	\$ 23,977		
Period end common shares outstanding (d)		63,844,500	57,378,318		
<b>TANGIBLE COMMON EQUITY MEASUREMENTS</b>					
Return on average tangible common equity 1		11.98	%	14.46	%
Tangible common equity/tangible assets (a)/(b)		9.11	%	7.20	%
Tangible common equity/risk-weighted assets (a)/(c)		12.15	%	9.43	%

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Tangible common book value	(a)/(d)*1,000	\$ 12.82	\$ 11.87
<b>TIER 1 COMMON RISK-BASED CAPITAL</b>			
Total shareholders' equity		\$ 1,128,529	\$ 1,200,368
Eliminate qualifying AOCI		(4,464 )	5,097
Qualifying tier 1 capital		68,000	68,000
Disallowed goodwill		(291,104 )	(291,104 )
Adj to goodwill allowed for deferred taxes		9,158	7,748
Other disallowed intangibles		(18,944 )	(22,820 )
Disallowed servicing intangible		(5,004 )	(4,526 )
Total tier 1 capital		\$ 886,171	\$ 962,763
Less:			
Qualifying tier 1 capital		(68,000 )	(68,000 )
Preferred stock		—	(205,564 )
Total tier 1 common capital	(e)	\$ 818,171	\$ 689,199
Tier 1 common risk-based capital ratio	(e)/(c)	12.14	% 9.55 %

1 Calculation = ((net income adjusted for intangible amortization/number of days in period)\*number of days in year)/total average tangible common equity



## Results of Operations

### Net Interest Income

Net interest income is the principal component of Trustmark's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates, as well as volume and mix changes in earning assets and interest-bearing liabilities, can materially impact net interest income. The net interest margin (NIM) is computed by dividing fully taxable equivalent net interest income by average interest-earning assets and measures how effectively Trustmark utilizes its interest-earning assets in relationship to the interest cost of funding them. The accompanying Yield/Rate Analysis Table shows the average balances for all assets and liabilities of Trustmark and the interest income or expense associated with earning assets and interest-bearing liabilities. The yields and rates have been computed based upon interest income and expense adjusted to a fully taxable equivalent (FTE) basis using a 35% federal marginal tax rate for all periods shown. Nonaccruing loans have been included in the average loan balances, and interest collected prior to these loans having been placed on nonaccrual has been included in interest income. Loan fees included in interest associated with the average loan balances are immaterial.

Net interest income-FTE for the first three months of 2010 decreased \$235 thousand, or 0.3%, compared to the same time period in 2009, due to lower average earning asset balances. The impact of lower earning asset balances was partially offset by a 24 basis point increase in the net interest margin to 4.42% during the first three months of 2010, compared to 4.18% for the first three months of 2009. The net interest margin increase was primarily a result of decreased deposit costs, as Trustmark focused on reducing higher cost certificates of deposits, as well as prudent loan pricing, including the use of interest rate floors in its commercial loan pricing. The impact of these two initiatives more than offset the gradual downward repricing of the bank's long-term fixed rate assets.

Average interest-earning assets for the first three months of 2010 were \$8.314 billion, compared with \$8.833 billion for the same time period in 2009, a decrease of \$518.5 million. This decline was primarily due to a decrease in average total loans of \$569.3 million, or 8.2% during the first three months of 2010. This decrease reflects Trustmark's on-going efforts to reduce exposure to construction and land development lending and the decision to discontinue indirect auto financing as well as the continued weak demand for loans. During the first three months of 2010, the yield on loans decreased five basis points when compared to the same time period in 2009 due to the downward repricing of fixed rate assets. Average total securities increased \$50.5 million during the first three months of 2010 when compared to the same time period in 2009. The overall yield on securities decreased 49 basis points when compared to the same time period in 2009 due to the run-off of higher yielding securities being replaced with lower yielding securities. As a result of these factors, interest income-FTE decreased \$9.8 million, or 8.4%, when the first quarter of 2010 is compared with the same time period in 2009. The impact of these changes is also illustrated by the decline in the yield on total earning assets, which fell from 5.34% for the first three months of 2009 to 5.19% for the same time period in 2010, a decrease of 15 basis points.

Average interest-bearing liabilities for the first three months of 2010 totaled \$6.590 billion compared with \$6.995 billion for the same time period in 2009, a decrease of \$404.2 million, or 5.8%. During the first three months of 2010, interest-bearing deposits increased \$100.5 million, or 1.8%, while the combination of federal funds purchased, securities sold under repurchase agreements and other borrowings decreased by \$504.7 million, or 33.6% due to the reduction in loans coupled with stable deposits. Due to a reduction in higher-cost wholesale funding products, the overall yield on liabilities declined 49 basis points during the first three months of 2010 when compared with the same time period in 2009. As a result of these factors, total interest expense for the first three months of 2010 decreased \$9.5 million, or 37.7%, when compared with the first three months of 2009.



Yield/Rate Analysis Table  
(\$ in thousands)

	Three Months Ended March 31,					
	2010			2009		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets</b>						
<b>Interest-earning assets:</b>						
<b>Federal funds sold and securities purchased under reverse repurchase agreements</b>						
	\$10,438	\$8	0.31 %	\$15,988	\$19	0.48 %
Securities - taxable	1,693,105	19,735	4.73 %	1,683,745	21,654	5.22 %
Securities - nontaxable	151,919	2,180	5.82 %	110,737	1,834	6.72 %
Loans (including loans held for sale)	6,412,671	84,127	5.32 %	6,981,921	92,382	5.37 %
Other earning assets	46,199	383	3.36 %	40,485	313	3.14 %
Total interest-earning assets	8,314,332	106,433	5.19			