

TRUSTMARK CORP
Form 10-Q
August 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

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 64-0471500
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

248 East Capitol Street, Jackson, Mississippi 39201
(Address of principal executive offices) (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

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

Edgar Filing: TRUSTMARK CORP - Form 10-Q

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 July 31, 2014, there were 67,439,788 shares outstanding of the registrant's common stock (no par value).

Forward-Looking Statements

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “forecast,” or “may be,” and the negative of those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements include, but are not limited to, statements relating to anticipated future operating and financial performance measures, including net interest margin, credit quality, business initiatives, growth opportunities and growth rates, among other things, and encompass any estimate, prediction, expectation, projection, opinion, anticipation, outlook or statement of belief included therein as well as the management assumptions underlying these forward-looking statements. You should be aware that the occurrence of the events described under the caption “Risk Factors” in Trustmark’s filings with the Securities and Exchange Commission could have an adverse effect on our business, results of operations and financial condition. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary significantly from those anticipated, estimated, projected or expected.

Risks that could cause actual results to differ materially from current expectations of Management include, but are not limited to, changes in the level of nonperforming assets and charge-offs, local, state and national economic and market conditions, including the extent and duration of the current volatility in the credit and financial markets, changes in our ability to measure the fair value of assets in our portfolio, material changes in the level and/or volatility of market interest rates, the performance and demand for the products and services we offer, including the level and timing of withdrawals from our deposit accounts, the costs and effects of litigation and of unexpected or adverse outcomes in such litigation, our ability to attract noninterest-bearing deposits and other low-cost funds, competition in loan and deposit pricing, as well as the entry of new competitors into our markets through de novo expansion and acquisitions, economic conditions, and monetary and other governmental actions designed to address the level and volatility of interest rates and the volatility of securities, currency and other markets, the enactment of legislation and changes in existing regulations, or enforcement practices, or the adoption of new regulations, changes in accounting standards and practices, including changes in the interpretation of existing standards, that affect our consolidated financial statements, changes in consumer spending, borrowings and savings habits, technological changes, changes in the financial performance or condition of our borrowers, changes in our ability to control expenses, changes in our compensation and benefit plans, greater than expected costs or difficulties related to the integration of acquisitions or new products and lines of business, natural disasters, environmental disasters, acts of war or terrorism, and other risks described in our filings with the Securities and Exchange Commission.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Except as required by law, we undertake no obligation to update or revise any of this information, whether as the result of new information, future events or developments or otherwise.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited)	
	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks (noninterest-bearing)	\$322,960	\$345,761
Federal funds sold and securities purchased under reverse repurchase agreements	5,000	7,253
Securities available for sale (at fair value)	2,376,431	2,194,154
Securities held to maturity (fair value: \$1,162,871-2014; \$1,150,833-2013)	1,156,790	1,168,728
Loans held for sale (LHFS)	142,103	149,169
Loans held for investment (LHFI)	6,187,000	5,798,881
Less allowance for loan losses, LHFI	66,648	66,448
Net LHFI	6,120,352	5,732,433
Acquired loans:		
Noncovered loans	616,911	769,990
Covered loans	29,628	34,216
Less allowance for loan losses, acquired loans	11,179	9,636
Net acquired loans	635,360	794,570
Net LHFI and acquired loans	6,755,712	6,527,003
Premises and equipment, net	201,639	207,283
Mortgage servicing rights	65,049	67,834
Goodwill	365,500	372,851
Identifiable intangible assets	37,506	41,990
Other real estate, excluding covered other real estate	106,970	106,539
Covered other real estate	3,872	5,108
FDIC indemnification asset	10,866	14,347
Other assets	569,598	582,363
Total Assets	\$12,119,996	\$11,790,383
Liabilities		
Deposits:		
Noninterest-bearing	\$2,729,199	\$2,663,503
Interest-bearing	7,131,167	7,196,399
Total deposits	9,860,366	9,859,902
Federal funds purchased and securities sold under repurchase agreements	559,316	251,587
Short-term borrowings	61,227	66,385
Long-term FHLB advances	8,236	8,458
Subordinated notes	49,920	49,904
Junior subordinated debt securities	61,856	61,856
Other liabilities	119,184	137,338
Total Liabilities	10,720,105	10,435,430
Shareholders' Equity		
Common stock, no par value:		

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Authorized: 250,000,000 shares

Issued and outstanding: 67,439,788 shares - 2014;

67,372,980 shares - 2013

Capital surplus

Retained earnings

Accumulated other comprehensive loss, net of tax

Total Shareholders' Equity

Total Liabilities and Shareholders' Equity

14,051	14,038
353,196	349,680
1,063,201	1,034,966
(30,557)	(43,731)
1,399,891	1,354,953
\$12,119,996	\$11,790,383

See notes to consolidated financial statements.

3

Edgar Filing: TRUSTMARK CORP - Form 10-Q

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Interest Income				
Interest and fees on LHFI & LHFS	\$66,343	\$64,706	\$129,417	\$129,169
Interest and fees on acquired loans	23,250	20,987	40,036	33,769
Interest on securities:				
Taxable	19,522	18,547	38,742	35,086
Tax exempt	1,243	1,283	2,491	2,595
Interest on federal funds sold and securities purchased under reverse repurchase agreements	6	5	11	9
Other interest income	379	372	754	727
Total Interest Income	110,743	105,900	211,451	201,355
Interest Expense				
Interest on deposits	3,970	5,071	8,335	9,980
Interest on federal funds purchased and securities sold under repurchase agreements	110	88	186	169
Other interest expense	1,375	1,513	2,738	3,003
Total Interest Expense	5,455	6,672	11,259	13,152
Net Interest Income	105,288	99,228	200,192	188,203
Provision for loan losses, LHFI	351	(4,846)	(454)	(7,814)
Provision for loan losses, acquired loans	3,784	(1,552)	3,847	(1,422)
Net Interest Income After Provision for Loan Losses	101,153	105,626	196,799	197,439
Noninterest Income				
Service charges on deposit accounts	11,846	12,929	23,414	24,610
Bank card and other fees	9,894	9,507	18,975	17,452
Mortgage banking, net	6,191	8,295	13,020	19,878
Insurance commissions	8,300	8,014	16,397	15,256
Wealth management	7,710	6,940	15,845	13,815
Other, net	199	(2,145)	178	(3,336)
Security gains, net	-	174	389	378
Total Noninterest Income	44,140	43,714	88,218	88,053
Noninterest Expense				
Salaries and employee benefits	56,134	55,405	112,860	108,997
Services and fees	14,543	12,816	27,708	25,848
Net occupancy - premises	6,413	6,703	13,019	12,658
Equipment expense	6,136	6,193	12,274	11,867
ORE/Foreclosure expense	3,836	5,131	7,151	8,951
FDIC assessment expense	2,468	2,376	4,884	4,397
Other expense	13,231	18,571	26,483	36,622
Total Noninterest Expense	102,761	107,195	204,379	209,340
Income Before Income Taxes	42,532	42,145	80,638	76,152
Income taxes	9,635	11,024	18,738	20,165
Net Income	\$32,897	\$31,121	\$61,900	\$55,987

Earnings Per Share

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Basic	\$0.49	\$0.46	\$0.92	\$0.84
Diluted	\$0.49	\$0.46	\$0.92	\$0.84
Dividends Per Share	\$0.23	\$0.23	\$0.46	\$0.46

See notes to consolidated financial statements.

4

Trustmark Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(\$ in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income per consolidated statements of income	\$32,897	\$31,121	\$61,900	\$55,987
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available for sale securities and transferred securities:				
Unrealized holding gains (losses) arising during the period	6,767	(44,515)	10,996	(43,135)
Less: adjustment for net gains realized in net income	-	(107)	(240)	(233)
Change in net unrealized holding losses on securities transferred to held to maturity	910	-	1,733	-
Pension and other postretirement benefit plans:				
Net change in prior service costs	38	39	77	78
Recognized net loss due to settlement	231	324	463	324
Recognized net actuarial loss	556	1,008	1,115	2,029
Derivatives:				
Change in the accumulated gain on effective cash flow hedge derivatives	(562)	1,454	(970)	1,454
Other comprehensive income (loss), net of tax	7,940	(41,797)	13,174	(39,483)
Comprehensive income (loss)	\$40,837	\$(10,676)	\$75,074	\$16,504

See notes to consolidated financial statements.

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

	2014	2013
Balance, January 1,	\$1,354,953	\$1,287,369
Net income per consolidated statements of income	61,900	55,987
Other comprehensive income (loss)	13,174	(39,483)
Common stock dividends paid	(31,224)	(31,108)
Common stock issued-net, long-term incentive plans:		
Stock options	-	381
Restricted stock	(795)	(949)
Excess tax expense from stock-based compensation arrangements	(353)	(747)
Compensation expense, long-term incentive plans	2,236	1,874
Common stock issued, business combinations	-	53,495
Balance, June 30,	\$1,399,891	\$1,326,819

See notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
Operating Activities		
Net income	\$61,900	\$55,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, net	3,393	(9,236)
Depreciation and amortization	17,956	18,317
Net amortization of securities	3,964	3,779
Securities gains, net	(389)	(378)
Gains on sales of loans, net	(4,584)	(17,759)
Deferred income tax provision	14,000	16,971
Proceeds from sales of loans held for sale	402,463	801,767
Purchases and originations of loans held for sale	(394,266)	(761,540)
Originations and sales of mortgage servicing rights, net	(5,179)	(10,661)
Increase in bank-owned life insurance	(2,337)	(334)
Net (increase) decrease in other assets	(99)	9,034
Net decrease in other liabilities	(15,827)	(3,064)
Other operating activities, net	10,151	2,600
Net cash provided by operating activities	91,146	105,483
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	39,903	6,905
Proceeds from calls and maturities of securities available for sale	166,089	482,993
Proceeds from sales of securities available for sale	26,274	67,558
Purchases of securities held to maturity	(25,252)	(35,045)
Purchases of securities available for sale	(360,703)	(950,009)
Net decrease (increase) in federal funds sold and securities purchased under reverse repurchase agreements	2,253	(823)
Net (increase) decrease in loans	(256,722)	113,671
Purchases of premises and equipment	(6,132)	(7,562)
Proceeds from sales of premises and equipment	4,632	10
Proceeds from sales of other real estate	21,672	17,060
Net cash received in business combination	-	89,037
Net cash used in investing activities	(387,986)	(216,205)
Financing Activities		
Net increase in deposits	464	180,821
Net increase in federal funds purchased and securities sold under repurchase agreements	307,729	85,192
Net decrease in short-term borrowings	(1,673)	(19,596)
Payments on long-term FHLB advances	(109)	(229)
Redemption of junior subordinated debt securities	-	(33,000)
Common stock dividends	(31,224)	(31,108)
Common stock issued-net, long-term incentive plans	(795)	(568)
Excess tax expense from stock-based compensation arrangements	(353)	(747)
Net cash provided by financing activities	274,039	180,765

Edgar Filing: TRUSTMARK CORP - Form 10-Q

(Decrease) Increase in cash and cash equivalents	(22,801)	70,043
Cash and cash equivalents at beginning of period	345,761	231,489
Cash and cash equivalents at end of period	\$322,960	\$301,532

See notes to consolidated financial statements.

7

Trustmark Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

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

Trustmark Corporation (Trustmark) is a bank holding company headquartered in Jackson, Mississippi. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions to corporate institutions and individual customers through 207 offices in Alabama, Florida, Mississippi, Tennessee and Texas.

The consolidated financial statements in this quarterly report on Form 10-Q include the accounts of 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 GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2013 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 2014 actual conditions could vary from those anticipated, which could affect our results of operations and financial condition. The allowance for loan losses, the amount and timing of expected cash flows from acquired loans and the Federal Deposit Insurance Corporation (FDIC) indemnification asset, the valuation of other real estate, the fair value of mortgage servicing rights, the valuation of goodwill and other identifiable intangibles, the status of contingencies and the fair values of financial instruments are particularly subject to change. Actual results could differ from those estimates.

Note 2 – Business Combinations

Somerville Bank & Trust Company

Immediately following the close of business on December 31, 2013, Trustmark National Bank (TNB), a subsidiary of Trustmark, completed its merger with Somerville Bank & Trust Company (Somerville), also a subsidiary of Trustmark, with TNB as the surviving entity in the merger. Somerville, headquartered in Somerville, Tennessee, provided banking services in the eastern Memphis metropolitan statistical area (MSA) through five offices. At December 31, 2013, Somerville had total assets of \$219.6 million. TNB and Somerville were both wholly owned subsidiaries of Trustmark; as such, the merger represented a business reorganization between affiliates under common control.

Oxford, Mississippi Branches

On July 26, 2013, TNB completed its acquisition of two branches of SOUTHBANK, F.S.B. (SOUTHBANK), located in Oxford, Mississippi. As a result of this acquisition, TNB assumed deposit accounts of approximately \$11.7 million in addition to purchasing the two physical branch offices. The transaction was not material to Trustmark's consolidated financial statements and was not considered a business combination in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, "Business Combinations."

BancTrust Financial Group, Inc.

On February 15, 2013, Trustmark completed its merger with BancTrust Financial Group, Inc. (BancTrust), a 26-year-old bank holding company headquartered in Mobile, Alabama. In accordance with the terms of the definitive agreement, the holders of BancTrust common stock received 0.125 of a share of Trustmark common stock for each share of BancTrust common stock in a tax-free exchange. Trustmark issued approximately 2.24 million shares of its common stock for all issued and outstanding shares of BancTrust common stock. The total value of the 2.24 million shares of Trustmark common stock issued to the BancTrust shareholders on the acquisition date was approximately \$53.5 million, based on a closing stock price of \$23.83 per share of Trustmark common stock on February 15, 2013. At closing, Trustmark repurchased the \$50.0 million of BancTrust preferred stock and associated warrant issued to the U.S. Department of Treasury under the Capital Purchase Program for approximately \$52.6 million.

8

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The acquisition of BancTrust was consistent with Trustmark's strategic plan to selectively expand the Trustmark franchise. The acquisition provided Trustmark entry into more than 15 markets in Alabama and enhanced the Trustmark franchise in the Florida Panhandle.

This acquisition was accounted for under the acquisition method in accordance with FASB ASC Topic 805. Accordingly, the assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date.

Trustmark recorded fair value adjustments based on the estimated fair value of certain acquired loans, premises and equipment, net and other real estate. During 2013, these measurement period adjustments resulted in a decrease in acquired noncovered loans of \$6.8 million, a decrease in premises and equipment, net of \$627 thousand, a decrease in other real estate of \$2.6 million, an increase in the deferred tax asset of \$3.4 million and an increase in goodwill of \$6.3 million. Trustmark also recorded an adjustment to transfer \$1.6 million of acquired property from premises and equipment, net to other real estate during 2013. During the first quarter of 2014, Trustmark recorded an additional measurement period adjustment that resulted in a \$7.4 million decrease in goodwill with a corresponding increase in the deferred tax asset. These measurement period adjustments were presented on a retrospective basis, consistent with applicable accounting guidance. The purchase price allocation was finalized during the first quarter of 2014.

The statement of assets purchased and liabilities assumed in the BancTrust acquisition is presented below at their adjusted estimated fair values as of the acquisition date of February 15, 2013 (\$ in thousands):

Assets:	
Cash and due from banks	\$ 141,616
Securities available for sale	528,016
Loans held for sale	1,050
Acquired noncovered loans	944,235
Premises and equipment, net	54,952
Identifiable intangible assets	33,498
Other real estate	40,103
Other assets	109,423
Total Assets	1,852,893
Liabilities:	
Deposits	1,740,254
Other borrowings	64,051
Other liabilities	16,761
Total Liabilities	1,821,066
Net identified assets acquired at fair value	31,827
Goodwill	74,247
Net assets acquired at fair value	\$ 106,074

The excess of the consideration paid over the estimated fair value of the net assets acquired was \$74.2 million, which was recorded as goodwill under FASB ASC Topic 805. The identifiable intangible assets acquired represent the core deposit intangible at fair value at the acquisition date. The core deposit intangible is being amortized on an accelerated basis over the estimated useful life, currently expected to be approximately 10 years.

Loans, excluding loans held for sale (LHFS), acquired from BancTrust were evaluated under a fair value process involving various degrees of deterioration in credit quality since origination, and also for those loans for which it was probable at acquisition that Trustmark would not be able to collect all contractually required payments. These loans, with the exception of revolving credit agreements and leases, are referred to as acquired impaired loans and are

accounted for in accordance with FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." Refer to Note 5 – Acquired Loans for further information on acquired loans.

The operations of BancTrust are included in Trustmark's operating results from February 15, 2013. Trustmark's noninterest expense during the first quarter of 2013 included non-routine BancTrust transaction expenses totaling approximately \$9.4 million (change in control and severance expense of \$1.4 million included in salaries and benefits; professional fees, contract termination and other expenses of \$7.9 million included in other expense).

9

Fair Value of Acquired Financial Instruments

For financial instruments measured at fair value, Trustmark utilized Level 2 inputs to determine the fair value of securities available for sale, time deposits (included in deposits above) and Federal Home Loan Bank (FHLB) advances. Level 3 inputs were used to determine the fair value of acquired loans, identifiable intangible assets, and other real estate. The methodology and significant assumptions used in estimating the fair values of these financial assets and liabilities are as follows:

Securities Available for Sale

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

Acquired Loans

Fair value of acquired loans is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of defaults and current market rates.

Identifiable Intangible Assets

The fair value assigned to the identifiable intangible assets, in this case core deposit intangibles, represent the future economic benefit of the potential cost savings from acquiring core deposits in the acquisition compared to the cost of obtaining alternative funding from market sources.

Other Real Estate

Other real estate was initially recorded at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs.

Time Deposits

Time deposits were valued by projecting expected cash flows into the future based on each account's contracted rate and then determining the present value of those expected cash flows using current rates for deposits with similar maturities.

FHLB Advances

FHLB advances were valued by projecting expected cash flows into the future based on each advance's contracted rate and then determining the present value of those expected cash flows using current rates for advances with similar maturities.

Please refer to Note 16 – Fair Value for more information on Trustmark's classification of financial instruments based on valuation inputs within the fair value hierarchy.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Note 3 – 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):

	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
June 30, 2014								
U.S. Treasury securities	\$ 100	\$ -	\$ -	\$ 100	\$ -	\$ -	\$ -	\$ -
U.S. Government agency obligations								
Issued by U.S. Government agencies	117,890	851	(1,252)	117,489	-	-	-	-
Issued by U.S. Government sponsored agencies	40,706	158	(16)	40,848	100,563	2,201	-	102,764
Obligations of states and political subdivisions	164,581	6,710	(62)	171,229	65,193	3,674	-	68,867
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	12,955	554	(17)	13,492	13,959	367	(2)	14,324
Issued by FNMA and FHLMC	219,987	5,304	(62)	225,229	12,165	267	-	12,432
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,542,274	14,703	(13,358)	1,543,619	822,444	3,092	(3,208)	822,328
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	221,221	8,083	(21)	229,283	142,466	1,092	(1,402)	142,156
Asset-backed securities and structured financial products	34,150	992	-	35,142	-	-	-	-

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Total	\$2,353,864	\$37,355	\$(14,788)	\$2,376,431	\$1,156,790	\$10,693	\$(4,612)	\$1,162,871
December 31, 2013								
U.S. Treasury securities	\$501	\$1	\$-	\$502	\$-	\$-	\$-	\$-
U.S. Government agency obligations								
Issued by U.S. Government agencies	129,653	1,125	(1,485)	129,293	-	-	-	-
Issued by U.S. Government sponsored agencies	40,681	19	(521)	40,179	100,159	-	(1,580)	98,579
Obligations of states and political subdivisions	165,810	6,243	(315)	171,738	65,987	2,806	(281)	68,512
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	14,099	459	(84)	14,474	9,433	142	(72)	9,503
Issued by FNMA and FHLMC	239,880	3,147	(1,909)	241,118	12,724	30	(162)	12,592
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,300,375	12,459	(22,093)	1,290,741	837,393	-	(15,072)	822,321
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	235,317	7,278	(423)	242,172	143,032	85	(3,791)	139,326
Asset-backed securities and structured financial products	62,689	1,248	-	63,937	-	-	-	-
Total	\$2,189,005	\$31,979	\$(26,830)	\$2,194,154	\$1,168,728	\$3,063	\$(20,958)	\$1,150,833

During the fourth quarter of 2013, Trustmark reclassified approximately \$1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities

totaled approximately \$46.6 million (\$28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. At June 30, 2014, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately \$43.6 million (\$26.9 million, net of tax).

During the first quarter of 2014, Trustmark sold its remaining \$25.9 million of Collateralized Loan Obligations (CLO) generating a net gain of \$389 thousand. These securities were identified as available for sale and had been carried in the asset-backed securities and structured financial products line item in the table shown above.

11

Temporarily Impaired Securities

The table below includes securities with gross unrealized losses segregated by length of impairment (\$ in thousands):

	Less than 12 Months Estimated Fair Value	Gross Unrealized (Losses)	12 Months or More Estimated Fair Value	Gross Unrealized (Losses)	Total Estimated Fair Value	Gross Unrealized (Losses)
June 30, 2014						
U.S. Government agency obligations Issued by U.S. Government agencies	\$57,066	\$ (561)	\$14,188	\$ (691)	\$71,254	\$ (1,252)
Issued by U.S. Government sponsored agencies	-	-	9,962	(16)	9,962	(16)
Obligations of states and political subdivisions	804	(1)	6,488	(61)	7,292	(62)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	4,462	(14)	726	(5)	5,188	(19)
Issued by FNMA and FHLMC	10,606	(62)	-	-	10,606	(62)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	765,676	(4,909)	417,328	(11,657)	1,183,004	(16,566)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	29,181	(232)	63,245	(1,191)	92,426	(1,423)
Total	\$867,795	\$ (5,779)	\$511,937	\$ (13,621)	\$1,379,732	\$ (19,400)
December 31, 2013						
U.S. Government agency obligations						
Issued by U.S. Government agencies	\$68,908	\$ (1,485)	\$-	\$-	\$68,908	\$ (1,485)
Issued by U.S. Government sponsored agencies	138,478	(2,101)	-	-	138,478	(2,101)
Obligations of states and political subdivisions	55,963	(586)	796	(10)	56,759	(596)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	14,732	(155)	161	(1)	14,893	(156)
Issued by FNMA and FHLMC	118,466	(2,071)	-	-	118,466	(2,071)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	1,534,381	(36,750)	23,458	(415)	1,557,839	(37,165)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	177,412	(4,214)	-	-	177,412	(4,214)
Total	\$2,108,340	\$ (47,362)	\$24,415	\$ (426)	\$2,132,755	\$ (47,788)

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 June 30, 2014. There were no other-than-temporary impairments for the six months ended June 30, 2014 and 2013.

Security Gains and Losses

Gains and losses as a result of calls and dispositions of securities, as well as any associated proceeds, were as follows (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Available for Sale				
Proceeds from calls and sales of securities	\$-	\$29,031	\$26,274	\$64,778
Gross realized gains	-	174	389	393
Gross realized (losses)	-	-	-	(15)

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

Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at June 30, 2014, 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 call or 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	\$15,950	\$16,110	\$3,195	\$3,231
Due after one year through five years	129,812	134,492	12,282	13,130
Due after five years through ten years	90,308	93,261	134,508	138,863
Due after ten years	121,357	120,945	15,771	16,407
	357,427	364,808	165,756	171,631
Mortgage-backed securities	1,996,437	2,011,623	991,034	991,240
Total	\$2,353,864	\$2,376,431	\$1,156,790	\$1,162,871

Note 4 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI

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

	June 30, 2014	December 31, 2013
Loans secured by real estate:		
Construction, land development and other land loans	\$531,651	\$596,889
Secured by 1-4 family residential properties	1,581,859	1,485,564
Secured by nonfarm, nonresidential properties	1,544,516	1,415,139
Other	250,383	189,362
Commercial and industrial loans	1,250,146	1,157,614
Consumer loans	165,372	165,308
Other loans	863,073	789,005
LHFI	6,187,000	5,798,881
Less allowance for loan losses, LHFI	66,648	66,448
Net LHFI	\$6,120,352	\$5,732,433

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At June 30, 2014, Trustmark's geographic loan distribution was concentrated primarily in its five key market regions, Alabama, Florida, Mississippi, Tennessee and Texas. 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 are susceptible to changes in market conditions in these areas.

Nonaccrual/Impaired LHFI

At June 30, 2014 and December 31, 2013, the carrying amounts of nonaccrual LHFI, which are individually evaluated for impairment, were \$71.1 million and \$65.2 million, respectively. Of this total, all commercial nonaccrual LHFI over \$500 thousand were specifically evaluated for impairment (specifically evaluated impaired LHFI) using a fair value approach. The remaining nonaccrual LHFI were not specifically reviewed and not written down to fair value

less cost to sell. No material interest income was recognized in the income statement on impaired or nonaccrual loans for each of the periods ended June 30, 2014 and 2013.

All of Trustmark's specifically evaluated impaired LHFI are collateral dependent loans. At June 30, 2014 and December 31, 2013, specifically evaluated impaired LHFI totaled \$30.5 million and \$31.6 million, respectively. In addition, these specifically evaluated impaired LHFI had a related allowance of \$1.8 million and \$2.2 million at the end of the respective periods. For collateral dependent loans, 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. Charge-offs related to specifically evaluated impaired LHFI totaled \$55 thousand and \$1.6 million for the first six months of 2014 and 2013, respectively. Provision recapture on specifically evaluated impaired LFHI totaled \$1.4 million and \$2.7 million for the first six months of 2014 and 2013, respectively.

13

Fair value estimates for specifically evaluated impaired LHFI are derived from appraised values based on the current market value or as is value of the property, normally from recently received and reviewed appraisals. Current appraisals are ordered on an annual basis based on the inspection date. Appraisals are obtained from state-certified appraisers and are based on certain assumptions, which may include construction or development status and the highest and best use of the property. These appraisals are reviewed by Trustmark's Appraisal Review Department to ensure they are acceptable, and values are adjusted down for costs associated with asset disposal. Once this estimated net realizable value has been determined, the value used in the impairment assessment is updated. At the time a specifically evaluated impaired LHFI is deemed to be impaired, the full difference between book value and the most likely estimate of the asset's net realizable value is charged off. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded.

At June 30, 2014 and December 31, 2013, nonaccrual LHFI not specifically reviewed for impairment and not written down to fair value less cost to sell, totaled \$40.6 million and \$33.7 million, respectively. In addition, these nonaccrual LHFI had allocated allowance for loan losses of \$4.3 million and \$3.0 million at the end of the respective periods.

The following table details LHFI individually and collectively evaluated for impairment at June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014		
	LHFI Evaluated for Impairment		
	Individual	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$21,142	\$510,509	\$531,651
Secured by 1-4 family residential properties	23,403	1,558,456	1,581,859
Secured by nonfarm, nonresidential properties	18,659	1,525,857	1,544,516
Other	1,233	249,150	250,383
Commercial and industrial loans	5,762	1,244,384	1,250,146
Consumer loans	107	165,265	165,372
Other loans	812	862,261	863,073
Total	\$71,118	\$6,115,882	\$6,187,000
	December 31, 2013		
	LHFI Evaluated for Impairment		
	Individual	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$13,327	\$583,562	\$596,889
Secured by 1-4 family residential properties	21,603	1,463,961	1,485,564
Secured by nonfarm, nonresidential properties	21,809	1,393,330	1,415,139
Other	1,327	188,035	189,362
Commercial and industrial loans	6,286	1,151,328	1,157,614
Consumer loans	151	165,157	165,308
Other loans	735	788,270	789,005
Total	\$65,238	\$5,733,643	\$5,798,881

Edgar Filing: TRUSTMARK CORP - Form 10-Q

At June 30, 2014 and December 31, 2013, the carrying amount of LHFI individually evaluated for impairment consisted of the following (\$ in thousands):

	June 30, 2014					
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	\$27,637	\$ 8,992	\$ 12,150	\$21,142	\$ 2,895	\$ 17,235
Secured by 1-4 family residential properties	28,467	1,811	21,592	23,403	308	22,503
Secured by nonfarm, nonresidential properties	21,436	14,553	4,106	18,659	1,642	20,234
Other	1,489	-	1,233	1,233	53	1,280
Commercial and industrial loans	8,143	3,094	2,668	5,762	884	6,024
Consumer loans	199	-	107	107	-	129
Other loans	952	-	812	812	259	774
Total	\$88,323	\$ 28,450	\$ 42,668	\$71,118	\$ 6,041	\$ 68,179
	December 31, 2013					
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	\$24,350	\$ 9,817	\$ 3,510	\$13,327	\$ 989	\$ 20,216
Secured by 1-4 family residential properties	26,541	3,095	18,508	21,603	191	24,359
Secured by nonfarm, nonresidential properties	24,879	10,225	11,584	21,809	2,307	20,049
Other	1,375	-	1,327	1,327	122	2,641
Commercial and industrial loans	8,702	2,506	3,780	6,286	1,253	5,513
Consumer loans	286	-	151	151	2	255
Other loans	849	-	735	735	317	767
Total	\$86,982	\$ 25,643	\$ 39,595	\$65,238	\$ 5,181	\$ 73,800

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties, and for related economic or legal reasons, a concession is granted to the borrower that Trustmark would not otherwise consider. Whatever the form of concession that might be granted by Trustmark, Management's objective is to enhance collectibility by obtaining more cash or other value from the borrower or by increasing the probability of receipt by granting the concession than by not granting it. Other concessions may arise from court proceedings or may be imposed by law. In addition, TDRs also include those credits that are extended or renewed to a borrower who is not able to obtain funds from sources other than Trustmark at a market interest rate for new debt with similar risk.

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310. Accordingly, Trustmark measures any loss on the restructuring in accordance with that guidance. A TDR in which Trustmark receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, is accounted for in accordance with FASB ASC Subtopic 310-40, "Troubled Debt Restructurings by Creditors." Thus, the loan is treated as if assets have been received in satisfaction of

the loan and reported as a foreclosed asset.

A TDR may be returned to accrual status if Trustmark is reasonably assured of repayment of principal and interest under the modified terms and the borrower has demonstrated sustained performance under those terms for a period of at least six months. Otherwise, the restructured loan must remain on nonaccrual.

At June 30, 2014, December 31, 2013 and June 30, 2013, LHFI classified as TDRs totaled \$12.6 million, \$14.8 million and \$19.3 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time totaling \$8.4 million, \$11.1 million and \$15.0 million, respectively. The remaining TDRs at June 30, 2014, December 31, 2013 and June 30, 2013 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions.

15

Edgar Filing: TRUSTMARK CORP - Form 10-Q

For TDRs, Trustmark had a related loan loss allowance of \$1.5 million, \$1.6 million and \$2.2 million at the end of each respective period. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. Specific charge-offs related to TDRs totaled \$55 thousand and \$429 thousand for the six months ended June 30, 2014 and 2013, respectively.

The following table illustrates the impact of modifications classified as TDRs for the three and six months ended June 30, 2014 and 2013 as well as those TDRs modified within the last 12 months for which there was a payment default during the period (\$ in thousands):

Troubled Debt Restructurings	Three Months Ended June 30, 2014		2013			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	Secured by 1-4 family residential properties	4	\$ 278	\$ 273	3	\$ 131

Troubled Debt Restructurings	Six Months Ended June 30, 2014		2013			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	Secured by 1-4 family residential properties	14	\$ 981	\$ 967	5	\$ 380
Secured by nonfarm, nonresidential properties	-	-	-	1	952	952
Commercial and industrial	-	-	-	2	944	937
Other loans	-	-	-	1	2,490	2,490
Total	14	\$ 981	\$ 967	9	\$ 4,766	\$ 4,705

Troubled Debt Restructurings that Subsequently Defaulted Construction, land development and other land loans	Six Months Ended June 30, 2014		2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Secured by 1-4 family residential properties	1	108	15	1,088
Total	1	\$108	16	\$1,098

Trustmark's TDRs have resulted primarily from allowing the borrower to pay interest only for an extended period of time rather than from forgiveness. Accordingly, as shown above, these TDRs have a similar recorded investment for both the pre-modification and post-modification disclosure. Trustmark has utilized loans 90 days or more past due to define payment default in determining TDRs that have subsequently defaulted.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following tables detail LHFI classified as TDRs by loan type for the periods presented (\$ in thousands):

	June 30, 2014		
	Accruing	Nonaccrual	Total
Construction, land development and other land loans	\$-	\$ 4,521	\$4,521
Secured by 1-4 family residential properties	1,543	3,873	5,416
Secured by nonfarm, nonresidential properties	-	1,979	1,979
Other loans secured by real estate	-	159	159
Commercial and industrial	-	531	531
Total Troubled Debt Restructurings by Type	\$1,543	\$ 11,063	\$ 12,606

	December 31, 2013		
	Accruing	Nonaccrual	Total
Construction, land development and other land loans	\$-	\$ 6,247	\$6,247
Secured by 1-4 family residential properties	1,320	4,201	5,521
Secured by nonfarm, nonresidential properties	-	2,292	2,292
Other loans secured by real estate	-	167	167
Commercial and industrial	-	549	549
Total Troubled Debt Restructurings by Type	\$1,320	\$ 13,456	\$ 14,776

	June 30, 2013		
	Accruing	Nonaccrual	Total
Construction, land development and other land loans	\$229	\$ 9,322	\$9,551
Secured by 1-4 family residential properties	1,263	5,275	6,538
Secured by nonfarm, nonresidential properties	-	2,419	2,419
Other loans secured by real estate	-	178	178
Commercial and industrial	-	575	575
Total Troubled Debt Restructurings by Type	\$1,492	\$ 17,769	\$ 19,261

Credit Quality Indicators

Trustmark's loan portfolio credit quality indicators focus on six key quality ratios that are compared against bank tolerances. The loan indicators are total classified outstanding, total criticized outstanding, nonperforming loans, nonperforming assets, delinquencies and net loan losses. Due to the homogenous nature of consumer loans, Trustmark does not assign a formal internal risk rating to each credit and therefore the criticized and classified measures are unique to commercial loans.

In addition to monitoring portfolio credit quality indicators, Trustmark also measures how effectively the lending process is being managed and risks are being identified. As part of an ongoing monitoring process, Trustmark grades the commercial portfolio as it relates to credit file completion and financial statement exceptions, total policy exceptions, collateral exceptions and violations of law as shown below:

Credit File Completeness and Financial Statement Exceptions – evaluates the quality and condition of credit files in terms of content, completeness and organization and focuses on efforts to obtain and document sufficient information to determine the quality and status of credits. Also included is an evaluation of the systems/procedures used to insure compliance with policy such as financial statements, review memos and loan agreements.

Underwriting/Policy – evaluates whether credits are adequately analyzed, appropriately structured and properly approved within requirements of bank loan policy. A properly approved credit is approved by adequate authority in a timely manner with all conditions of approval fulfilled. Total policy exceptions measure the level of underwriting and other policy exceptions within a loan portfolio.

Collateral Documentation – focuses on the adequacy of documentation to support the obligation, perfect Trustmark’s collateral position and protect collateral value. There are two parts to this measure:

ü Collateral exceptions are where certain collateral documentation is either not present, is not considered current or has expired.

ü 90 days and over collateral exceptions are where certain collateral documentation is either not present, is not considered current or has expired and the exception has been identified in excess of 90 days.

17

Compliance with Law – focuses on underwriting, documentation, approval and reporting in compliance with banking laws and regulations. Primary emphasis is directed to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and Regulation O requirements.

Commercial Credits

Trustmark has established a loan grading system that consists of ten individual credit risk grades (risk ratings) that encompass a range from loans where the expectation of loss is negligible to loans where loss has been established. The model is based on the risk of default for an individual credit and establishes certain criteria to delineate the level of risk across the ten unique credit risk grades. Credit risk grade definitions are as follows:

Risk Rate (RR) 1 through RR 6 – Grades one through six represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risk measured by using a variety of credit risk criteria such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.

Other Assets Especially Mentioned (OAEM) - (RR 7) – a loan that has a potential weakness that if not corrected will lead to a more severe rating. This rating is for credits that are currently protected but potentially weak because of an adverse feature or condition that if not corrected will lead to a further downgrade.

Substandard (RR 8) – a loan that has at least one identified weakness that is well defined. This rating is for credits where the primary sources of repayment are not viable at the time of evaluation or where either the capital or collateral is not adequate to support the loan and the secondary means of repayment do not provide a sufficient level of support to offset the identified weakness. Loss potential exists in the aggregate amount of substandard loans but does not necessarily exist in individual loans.

Doubtful (RR 9) – a loan with an identified weakness that does not have a valid secondary source of repayment. Generally these credits have an impaired primary source of repayment and secondary sources are not sufficient to prevent a loss in the credit. The exact amount of the loss has not been determined at this time.

Loss (RR 10) – a loan or a portion of a loan that is deemed to be uncollectible.

By definition, credit risk grades OAEM (RR 7), substandard (RR 8), doubtful (RR 9) and loss (RR 10) are criticized loans while substandard (RR 8), doubtful (RR 9) and loss (RR 10) are classified loans. These definitions are standardized by all bank regulatory agencies and are generally equally applied to each individual lending institution. The remaining credit risk grades are considered pass credits and are solely defined by Trustmark.

The credit risk grades represent the probability of default (PD) for an individual credit and as such are not a direct indication of loss given default (LGD). The LGD aspect of the subject risk ratings is neither uniform across the nine primary commercial loan groups or constant between the geographic areas. To account for the variance in the LGD aspects of the risk rate system, the loss expectations for each risk rating is integrated into the allowance for loan loss methodology where the calculated LGD is allotted for each individual risk rating with respect to the individual loan group and unique geographic area. The LGD aspect of the reserve methodology is calculated each quarter as a component of the overall reserve factor for each risk grade by loan group and geographic area.

To enhance this process, loans of a certain size that are rated in one of the criticized categories are routinely reviewed to establish an expectation of loss, if any, and if such examination indicates that the level of reserve is not adequate to cover the expectation of loss, a special reserve or impairment is generally applied.

The distribution of the losses is accomplished by means of a loss distribution model that assigns a loss factor to each risk rating (1 to 9) in each commercial loan pool. A factor is not applied to risk rate 10 as loans classified as Losses are not carried on Trustmark's books over quarter-end as they are charged off within the period that the loss is determined.

The expected loss distribution is spread across the various risk ratings by the perceived level of risk for loss. The nine grade scale described above ranges from a negligible risk of loss to an identified loss across its breadth. The loss distribution factors are graduated through the scale on a basis proportional to the degree of risk that appears manifest in each individual rating and assumes that migration through the loan grading system will occur.

18

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Each loan officer assesses the appropriateness of the internal risk rating assigned to their credits on an ongoing basis. Trustmark's Asset Review area conducts independent credit quality reviews of the majority of Trustmark's commercial loan portfolio concentrations both on the underlying credit quality of each individual loan portfolio as well as the adherence to Trustmark's loan policy and the loan administration process. In general, Asset Review conducts reviews of each lending area within a six to eighteen month window depending on the overall credit quality results of the individual area.

In addition to the ongoing internal risk rate monitoring described above, Trustmark's Credit Quality Review Committee meets monthly and performs a detailed review and evaluation of all loans of \$100 thousand or more that are either delinquent thirty days or more or on nonaccrual. This review includes recommendations regarding risk ratings, accrual status, charge-offs and appropriate servicing officer as well as evaluation of problem credits for determination of troubled debt restructurings. In addition, on a quarterly basis the Committee reviews and modifies continuous action plans for all credits rated seven or worse for relationships of \$100 thousand or more.

Consumer Credits

Consumer LHFI that do not meet a minimum custom credit score are reviewed quarterly by Management. The Retail Credit Review Committee reviews the volume and percentage of approvals that did not meet the minimum passing custom score by region, individual location, and officer. To assure that Trustmark continues to originate quality loans, this process allows Management to make necessary changes such as revisions to underwriting procedures and credit policies, or changes in loan authority to Trustmark personnel.

Trustmark monitors the levels and severity of past due consumer LHFI on a daily basis through its collection activities. A detailed assessment of consumer LHFI delinquencies is performed monthly at both a product and market level by delivery channel, which incorporates the perceived level of risk at time of underwriting. Trustmark also monitors its consumer LHFI delinquency trends by comparing them to quarterly industry averages.

The table below illustrates the carrying amount of LHFI by credit quality indicator at June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014				Subtotal
	Commercial LHFI			Doubtful	
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	- Category 9	
Loans secured by real estate:					
Construction, land development and other land loans	\$426,213	\$ 3,321	\$ 44,726	\$ 143	\$474,403
Secured by 1-4 family residential properties	125,513	1,500	7,069	181	134,263
Secured by nonfarm, nonresidential properties	1,459,068	5,988	78,187	293	1,543,536
Other	240,816	-	6,722	-	247,538
Commercial and industrial loans	1,195,331	22,591	30,694	1,520	1,250,136
Consumer loans	297	-	-	-	297
Other loans	841,860	7,798	6,707	540	856,905
	\$4,289,098	\$ 41,198	\$ 174,105	\$ 2,677	\$4,507,078
	Consumer LHFI				
	Past Due	Past Due			
	Current	30-89 Days	90 Days or	Nonaccrual	Subtotal
					Total LHFI

More

Loans secured by real estate:

Construction, land development and other land loans	\$56,804	\$258	\$54	\$ 132	\$57,248	\$531,651
Secured by 1-4 family residential properties	1,413,308	12,423	1,728	20,137	1,447,596	1,581,859
Secured by nonfarm, nonresidential properties	980	-	-	-	980	1,544,516
Other	2,845	-	-	-	2,845	250,383
Commercial and industrial loans	9	-	1	-	10	1,250,146
Consumer loans	163,360	1,456	153	106	165,075	165,372
Other loans	6,168	-	-	-	6,168	863,073
	\$1,643,474	\$14,137	\$1,936	\$ 20,375	\$1,679,922	\$6,187,000

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	December 31, 2013				
	Commercial LHFI				
Loans secured by real estate:	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Construction, land development and other land loans	\$493,380	\$4,383	\$47,610	\$318	\$545,691
Secured by 1-4 family residential properties	119,640	479	7,839	110	128,068
Secured by nonfarm, nonresidential properties	1,313,470	12,620	87,203	399	1,413,692
Other	178,951	-	6,756	235	185,942
Commercial and industrial loans	1,099,429	18,771	37,209	2,187	1,157,596
Consumer loans	496	-	-	-	496
Other loans	777,395	60	4,126	669	782,250
	\$3,982,761	\$36,313	\$190,743	\$3,918	\$4,213,735

	Consumer LHFI					Total LHFI
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	
Loans secured by real estate:						
Construction, land development and other land loans	\$50,850	\$131	\$-	\$217	\$51,198	\$596,889
Secured by 1-4 family residential properties	1,327,624	8,937	2,996	17,939	1,357,496	1,485,564
Secured by nonfarm, nonresidential properties	1,439	8	-	-	1,447	1,415,139
Other	3,418	2	-	-	3,420	189,362
Commercial and industrial loans	13	5	-	-	18	1,157,614
Consumer loans	162,348	2,012	302	150	164,812	165,308
Other loans	6,755	-	-	-	6,755	789,005
	\$1,552,447	\$11,095	\$3,298	\$18,306	\$1,585,146	\$5,798,881

Past Due LHFI and LHFS

LHFI past due 90 days or more totaled \$1.9 million and \$3.3 million at June 30, 2014 and December 31, 2013, respectively. The following tables provide an aging analysis of past due and nonaccrual LHFI by class at June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014					
	Past Due 90 Days or 30-89 Days	Past Due More (1)	Total	Nonaccrual	Current Loans	Total LHFI
Loans secured by real estate:						
Construction, land development and other land loans	\$1,797	\$53	\$1,850	\$21,142	\$508,659	\$531,651

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Secured by 1-4 family residential properties	13,151	1,729	14,880	23,403	1,543,576	1,581,859
Secured by nonfarm, nonresidential properties	2,990	1	2,991	18,659	1,522,866	1,544,516
Other	129	-	129	1,233	249,021	250,383
Commercial and industrial loans	2,781	-	2,781	5,762	1,241,603	1,250,146
Consumer loans	1,456	152	1,608	107	163,657	165,372
Other loans	75	-	75	812	862,186	863,073
Total	\$22,379	\$1,935	\$24,314	\$ 71,118	\$6,091,568	\$6,187,000

(1) - Past due 90 days or more but still accruing interest.

	December 31, 2013					
	Past Due			Current		
	30-89 Days	90 Days or More (1)	Total	Nonaccrual	Loans	Total LHFI
Loans secured by real estate:						
Construction, land development and other land loans	\$923	\$-	\$923	\$ 13,327	\$582,639	\$596,889
Secured by 1-4 family residential properties	9,437	2,996	12,433	21,603	1,451,528	1,485,564
Secured by nonfarm, nonresidential properties	2,044	-	2,044	21,809	1,391,286	1,415,139
Other	5	-	5	1,327	188,030	189,362
Commercial and industrial loans	1,007	-	1,007	6,286	1,150,321	1,157,614
Consumer loans	2,012	302	2,314	151	162,843	165,308
Other loans	17	-	17	735	788,253	789,005
Total	\$15,445	\$3,298	\$18,743	\$ 65,238	\$5,714,900	\$5,798,881

(1) - Past due 90 days or more but still accruing interest.

LHFS past due 90 days or more totaled \$21.8 million and \$21.5 million at June 30, 2014 and December 31, 2013, respectively. LHFS past due 90 days or more are serviced loans eligible for repurchase, which are fully guaranteed by the Government National Mortgage Association (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.

Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first six months of 2014. During the first quarter of 2013, Trustmark exercised its option to repurchase approximately \$57.4 million delinquent loans serviced for GNMA. These loans were subsequently sold to a third party under different repurchase provisions. Trustmark retained the servicing for these loans, which are fully guaranteed by FHA/VA. As a result of this repurchase and sale, the loans are no longer carried as LHFS. The transaction resulted in a gain of \$534 thousand, which is included in mortgage banking, net for the first six months of 2013.

Allowance for Loan Losses, LHFI

Trustmark's allowance for loan loss methodology for commercial LHFI is based upon regulatory guidance from its primary regulator and GAAP. The methodology segregates the commercial purpose and commercial construction LHFI portfolios into nine separate loan types (or pools) which have similar characteristics such as repayment, collateral and risk profiles. The nine basic loan pools are further segregated into Trustmark's five key market regions, Alabama, Florida, Mississippi, Tennessee and Texas, to take into consideration the uniqueness of each market. A 10-point risk rating system is utilized for each separate loan pool to apply a reserve factor consisting of quantitative and qualitative components to determine the needed allowance by each loan type. As a result, there are 450 risk rate factors for commercial loan types. The nine separate pools are shown below:

Commercial Purpose LHFI

- Real Estate – Owner Occupied
- Real Estate – Non-Owner Occupied
- Working Capital
- Non-Working Capital
- Land
- Lots and Development
- Political Subdivisions

Commercial Construction LHFI

- 1 to 4 Family
- Non-1 to 4 Family

The quantitative factors of the allowance methodology reflect a twelve-quarter rolling average of net charge-offs by loan type within each key market region. This allows for a greater sensitivity to current trends, such as economic changes, as well as current loss profiles and creates a more accurate depiction of historical losses.

Qualitative factors used in the allowance methodology include the following:

- National and regional economic trends and conditions
- Impact of recent performance trends

- Experience, ability and effectiveness of management
- Adherence to Trustmark's loan policies, procedures and internal controls
- Collateral, financial and underwriting exception trends
- Credit concentrations
- Acquisitions
- Catastrophe

21

Each qualitative factor is converted to a scale ranging from 0 (No risk) to 100 (High Risk), other than the last two factors, which are applied on a dollar-for-dollar basis to ensure that the combination of such factors is proportional. The resulting ratings from the individual factors are weighted and summed to establish the weighted-average qualitative factor of a specific loan portfolio within each key market region. This weighted-average qualitative factor is then distributed over the nine primary loan pools within each key market region based on the ranking by risk of each.

During 2013, Trustmark revised the qualitative portion of the allowance for loan loss methodology for commercial LHFI to incorporate a loan facility risk component. Loan facility risk embodies the nature, frequency and duration of the repayment structure as it pertains to the actual source of loan repayment. The underlying loan structure and nature of the credit either is risk neutral for standard structure or adds risk to the credit for any variance that represents additional credit risk from the standard structure. If the facility structure adds additional credit risk, qualitative reserves are added to individual loans based on their respective commercial loan pools. Factors considered in assigning facility risk include whether the principal is amortizing or not amortizing, revolving or not revolving, the payment frequency and the duration of the payment structure. An additional provision of approximately \$1.6 million was recorded in 2013 as a result of this revision to the qualitative portion of the allowance for loan loss methodology for commercial LHFI.

For each commercial loan portfolio, the loan facility risk factor's percentage of the balances are summed and weighted based on commercial loan portfolio rankings. This weighted-average facility factor is then distributed over the nine primary loan pools within each key market region based on the ranking by risk of each.

The allowance for loan loss methodology segregates the consumer LHFI portfolio into homogeneous pools of loans that contain similar structure, repayment, collateral and risk profiles. These homogeneous pools of loans are shown below:

- Residential Mortgage
- Direct Consumer
- Auto Finance
- Junior Lien on 1-4 Family Residential Properties
- Credit Cards
- Overdrafts

The historical loss experience for these pools is determined by calculating a 12-quarter rolling average of net charge-offs, which is applied to each pool to establish the quantitative aspect of the methodology. Where, in Management's estimation, the calculated loss experience does not fully cover the anticipated loss for a pool, an estimate is also applied to each pool to establish the qualitative aspect of the methodology, which represents the perceived risks across the loan portfolio at the current point in time. This qualitative methodology utilizes five separate factors made up of unique components that when weighted and combined produce an estimated level of reserve for each of the loan pools. The five qualitative factors include the following:

- Economic indicators
- Performance trends
- Management experience
- Lending policy measures
- Credit concentrations

The risk measure for each factor is converted to a scale ranging from 0 (No risk) to 100 (High Risk) to ensure that the combination of such factors is proportional. The determination of the risk measurement for each qualitative factor is done for all markets combined. The resulting estimated reserve factor is then applied to each pool.

During the second quarter 2014, Trustmark revised the qualitative portion of the allowance for loan loss methodology for consumer LHFIs to incorporate the use of consumer credit bureau scores developed and provided by an independent third party. The credit bureau scores reflect the customer's historical willingness and ability to service their debt. These credit bureau scores are monitored on an ongoing basis and represent a consumer's credit payment history with all of their creditors including their repayment performance with Trustmark. The implementation of this consumer qualitative factor will allow Trustmark to better monitor shifts in risk that are represented in the retail portfolio and ensure that it is reflective in the allowance for loan loss calculation. An additional provision of approximately \$1.4 million was recorded in the second quarter of 2014 as a result of this revision to the qualitative portion of the allowance for loan loss methodology for consumer LHFIs.

The resulting ratings from the individual factors are weighted and summed to establish the weighted-average qualitative factor of a specific loan portfolio. This weighted-average qualitative factor is then applied over the six loan pools.

22

Edgar Filing: TRUSTMARK CORP - Form 10-Q

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

	Six Months Ended	
	June 30,	
	2014	2013
Balance at January 1,	\$66,448	\$78,738
Loans charged-off	(6,836)	(6,356)
Recoveries	7,490	8,257
Net recoveries	654	1,901
Provision for loan losses, LHFI	(454)	(7,814)
Balance at June 30,	\$66,648	\$72,825

The following tables detail the balance in the allowance for loan losses, LHFI by portfolio segment at June 30, 2014 and 2013 (\$ in thousands):

	2014			Provision for Loan Losses	Balance June 30,
	Balance January 1,	Charge-offs	Recoveries		
Loans secured by real estate:					
Construction, land development and other land loans	\$13,165	\$ (76)	\$ 3,217	\$ (5,271)	\$11,035
Secured by 1-4 family residential properties	9,633	(1,634)	255	2,200	10,454
Secured by nonfarm, nonresidential properties	19,672	(240)	94	(942)	18,584
Other	2,080	(262)	-	645	2,463
Commercial and industrial loans	15,522	(1,656)	286	2,788	16,940
Consumer loans	2,405	(883)	1,973	(1,161)	2,334
Other loans	3,971	(2,085)	1,665	1,287	4,838
Total allowance for loan losses, LHFI	\$66,448	\$ (6,836)	\$ 7,490	\$ (454)	\$66,648

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$2,895	\$ 8,140	\$11,035
Secured by 1-4 family residential properties	308	10,146	10,454
Secured by nonfarm, nonresidential properties	1,642	16,942	18,584
Other	53	2,410	2,463
Commercial and industrial loans	884	16,056	16,940
Consumer loans	-	2,334	2,334
Other loans	259	4,579	4,838
Total allowance for loan losses, LHFI	\$6,041	\$ 60,607	\$66,648

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	2013			Provision for Loan Losses	Balance June 30,
	Balance January 1,	Charge-offs	Recoveries		
Loans secured by real estate:					
Construction, land development and other land loans	\$21,838	\$ (412)	\$ 1,462	\$ (6,424)	\$ 16,464
Secured by 1-4 family residential properties	12,957	(532)	213	(2,697)	9,941
Secured by nonfarm, nonresidential properties	21,096	(434)	26	(996)	19,692
Other	2,197	(891)	30	240	1,576
Commercial and industrial loans	14,319	(658)	2,135	1,755	17,551
Consumer loans	3,087	(1,139)	2,505	(1,602)	2,851
Other loans	3,244	(2,290)	1,886	1,910	4,750
Total allowance for loan losses, LHFI	\$78,738	\$ (6,356)	\$ 8,257	\$ (7,814)	\$72,825

Disaggregated by Impairment
Method

	Disaggregated by Impairment Method		
	Individual	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$1,527	\$ 14,937	\$ 16,464
Secured by 1-4 family residential properties	583	9,358	9,941
Secured by nonfarm, nonresidential properties	1,936	17,756	19,692
Other	38	1,538	1,576
Commercial and industrial loans	6,273	11,278	17,551
Consumer loans	2	2,849	2,851
Other loans	331	4,419	4,750
Total allowance for loan losses, LHFI	\$10,690	\$ 62,135	\$72,825

Note 5 – Acquired Loans

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

	June 30, 2014		December 31, 2013	
	Noncovered	Covered	Noncovered	Covered
Loans secured by real estate:				
Construction, land development and other land loans	\$75,353	\$2,130	\$98,928	\$2,363
Secured by 1-4 family residential properties	133,191	14,565	157,914	16,416
Secured by nonfarm, nonresidential properties	226,967	8,831	287,136	10,945
Other	30,918	2,376	33,948	2,644
Commercial and industrial loans	114,212	336	149,495	394
Consumer loans	14,733	-	18,428	119
Other loans	21,537	1,390	24,141	1,335
Acquired loans	616,911	29,628	769,990	34,216
Less allowance for loan losses, acquired loans	9,770	1,409	7,249	2,387
Net acquired loans	\$607,141	\$28,219	\$762,741	\$31,829

On February 15, 2013, Trustmark completed its merger with BancTrust. Loans acquired in the BancTrust acquisition were evaluated for evidence of credit deterioration since origination and collectability of contractually required payments. Trustmark elected to account for all loans acquired in the BancTrust acquisition as acquired impaired loans under FASB ASC Topic 310-30 except for \$153.9 million of acquired loans with revolving privileges and acquired commercial leases, which are outside the scope of the guidance. While not all loans acquired from BancTrust

exhibited evidence of significant credit deterioration, accounting for these acquired loans under FASB ASC Topic 310-30 would have materially the same result as the alternative accounting treatment. During the second and third quarters of 2013, Trustmark recorded fair value adjustments based on the estimated fair value of certain acquired loans which resulted in a net decrease in acquired noncovered loans totaling \$6.8 million. The purchase price allocation for these loans was considered final as of December 31, 2013.

24

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table presents the adjusted fair value of loans acquired as of the date of the BancTrust acquisition (\$ in thousands):

At acquisition date:	February 15, 2013
Contractually required principal and interest	\$1,256,669
Nonaccretable difference	201,324
Cash flows expected to be collected	1,055,345
Accretable yield	98,394
FASB ASC Topic 310-20 discount	12,716
Fair value of loans at acquisition	\$944,235

The following tables present changes in the net carrying value of the acquired loans for the periods presented (\$ in thousands):

	Noncovered		Covered	
	Acquired	Acquired Not ASC 310-30	Acquired	Acquired Not ASC 310-30
	Impaired	(1)	Impaired	(1)
Carrying value, net at January 1, 2013	\$72,942	\$6,696	\$45,391	\$2,460
Loans acquired (2)	790,335	153,900	-	-
Accretion to interest income	35,538	2,628	5,150	159
Payments received, net	(229,618)	(39,281)	(18,976)	(819)
Other	(24,177)	(858)	(3,202)	(137)
Less change in allowance for loan losses, acquired loans	(5,364)	-	1,803	-
Carrying value, net at December 31, 2013	639,656	123,085	30,166	1,663
Accretion to interest income	23,471	1,059	2,047	1
Payments received, net	(132,343)	(28,529)	(5,032)	162
Other	(16,385)	(352)	(1,282)	(484)
Less change in allowance for loan losses, acquired loans	(2,141)	(380)	978	-
Carrying value, net at June 30, 2014	\$512,258	\$94,883	\$26,877	\$1,342

(1) "Acquired Not ASC 310-30" loans consist of revolving credit agreements and commercial leases that are not in scope for FASB ASC Topic 310-30.

(2) Adjusted fair value of loans acquired from BancTrust on February 15, 2013.

Under FASB ASC Topic 310-30, the accretable yield is the excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans and is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. The following table presents changes in the accretable yield for the six months ended June 30, 2014 and 2013 (\$ in thousands):

	Six Months Ended	
	June 30, 2014	2013
Accretable yield at January 1,	\$(109,006)	\$(26,383)
Additions due to acquisition (1)	-	(98,394)
Accretion to interest income	25,518	16,639
Disposals	10,791	7,196
Reclassification to / (from) nonaccretable difference (2)	(20,094)	(5,180)

Accretable yield at June 30,

\$(92,791) \$(106,122)

- (1) Accretable yield on loans acquired from BancTrust on February 15, 2013, adjusted for measurement period adjustments.
- (2) Reclassifications from nonaccretable difference are due to lower loss expectations and improvements in expected cash flows.

25

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following tables present the components of the allowance for loan losses on acquired loans for the six months ended June 30, 2014 and 2013 (\$ in thousands):

	Noncovered	Covered	Total
Balance at January 1, 2014	\$ 7,249	\$ 2,387	\$9,636
Provision for loan losses, acquired loans	3,899	(52)	3,847
Loans charged-off	(2,152)	(865)	(3,017)
Recoveries	774	(61)	713
Net charge-offs	(1,378)	(926)	(2,304)
Balance at June 30, 2014	\$ 9,770	\$ 1,409	\$ 11,179

	Noncovered	Covered	Total
Balance at January 1, 2013	\$ 1,885	\$4,190	\$6,075
Provision for loan losses, acquired loans	(94)	(1,328)	(1,422)
Loans charged-off	(2,142)	(302)	(2,444)
Recoveries	463	18	481
Net charge-offs	(1,679)	(284)	(1,963)
Balance at June 30, 2013	\$ 112	\$2,578	\$2,690

As discussed in Note 4 - Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI, Trustmark has established a loan grading system that consists of ten individual credit risk grades (risk ratings) that encompass a range from loans where the expectation of loss is negligible to loans where loss has been established. The model is based on the risk of default for an individual credit and establishes certain criteria to segregate the level of risk across the ten unique risk ratings. These credit quality measures are unique to commercial loans. Credit quality for consumer loans is based on individual credit scores, aging status of the loan and payment activity.

26

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The tables below illustrate the carrying amount of acquired loans by credit quality indicator at June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014					
	Commercial Loans					
		Special	Substandard	Doubtful		
	Pass - Categories 1-6	Mention Category 7	Category 8	Category 9	Subtotal	
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land loans	\$ 31,679	\$ 1,222	\$ 30,426	\$ 7,246	\$ 70,573	
Secured by 1-4 family residential properties	31,824	1,313	14,936	210	48,283	
Secured by nonfarm, nonresidential properties	170,322	5,941	48,999	1,705	226,967	
Other	26,584	885	3,143	284	30,896	
Commercial and industrial loans	90,148	510	19,476	4,078	114,212	
Consumer loans	-	-	-	-	-	
Other loans	19,201	-	939	1,352	21,492	
Total noncovered loans	369,758	9,871	117,919	14,875	512,423	
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land loans	252	-	1,320	401	1,973	
Secured by 1-4 family residential properties	1,384	260	1,263	-	2,907	
Secured by nonfarm, nonresidential properties	4,737	99	3,347	-	8,183	
Other	832	121	713	2	1,668	
Commercial and industrial loans	164	26	146	-	336	
Consumer loans	-	-	-	-	-	
Other loans	250	-	455	685	1,390	
Total covered loans	7,619	506	7,244	1,088	16,457	
Total acquired loans	\$ 377,377	\$ 10,377	\$ 125,163	\$ 15,963	\$ 528,880	
Consumer Loans						
		Past Due	Past Due 90 Days or More	Nonaccrual	Subtotal	Total Acquired Loans
	Current	30-89 Days				
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land loans	\$ 4,409	\$ 58	\$ 313	\$ -	\$ 4,780	\$ 75,353
Secured by 1-4 family residential properties	79,241	2,706	2,882	79	84,908	133,191
Secured by nonfarm, nonresidential properties	-	-	-	-	-	226,967
Other	22	-	-	-	22	30,918
Commercial and industrial loans	-	-	-	-	-	114,212
Consumer loans	14,385	341	7	-	14,733	14,733
Other loans	45	-	-	-	45	21,537
Total noncovered loans	98,102	3,105	3,202	79	104,488	616,911

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Covered Loans: (1)

Loans secured by real estate:

Construction, land development and other land loans	143	14	-	-	157	2,130
Secured by 1-4 family residential properties	10,881	527	245	5	11,658	14,565
Secured by nonfarm, nonresidential properties	473	-	175	-	648	8,831
Other	675	33	-	-	708	2,376
Commercial and industrial loans	-	-	-	-	-	336
Consumer loans	-	-	-	-	-	-
Other loans	-	-	-	-	-	1,390
Total covered loans	12,172	574	420	5	13,171	29,628
Total acquired loans	\$110,274	\$3,679	\$3,622	\$ 84	\$117,659	\$646,539

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC.

TNB is at risk for only 20% of the losses incurred on these loans.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

December 31, 2013

Commercial Loans

	Pass - Categories 1-6	Special Mention Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Noncovered Loans:					
Loans secured by real estate:					
Construction, land development and other land loans	\$ 39,075	\$ 2,506	\$ 42,486	\$ 8,445	\$92,512
Secured by 1-4 family residential properties	33,810	2,983	17,422	538	54,753
Secured by nonfarm, nonresidential properties	184,594	9,027	88,952	4,563	287,136
Other	28,156	1,437	4,071	184	33,848
Commercial and industrial loans	116,818	2,248	24,084	6,039	149,189
Consumer loans	21	-	-	-	21
Other loans	21,881	-	882	1,306	24,069
Total noncovered loans	424,355	18,201	177,897	21,075	641,528

Covered Loans: (1)

Loans secured by real estate:

Construction, land development and other land loans	228	-	1,126	771	2,125
Secured by 1-4 family residential properties	1,629	430	1,798	-	3,857
Secured by nonfarm, nonresidential properties	5,446	109	4,723	-	10,278
Other	832	134	717	2	1,685
Commercial and industrial loans	254	28	112	-	394
Consumer loans	-	-	-	-	-
Other loans	271	-	414	646	1,331
Total covered loans	8,660	701	8,890	1,419	19,670
Total acquired loans	\$ 433,015	\$ 18,902	\$ 186,787	\$ 22,494	\$ 661,198

Consumer Loans

	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total Acquired Loans
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land loans	\$ 5,813	\$ 108	\$ 495	\$ -	\$ 6,416	\$ 98,928
Secured by 1-4 family residential properties	95,987	3,599	3,466	109	103,161	157,914
Secured by nonfarm, nonresidential properties	-	-	-	-	-	287,136
Other	100	-	-	-	100	33,948
Commercial and industrial loans	306	-	-	-	306	149,495
Consumer loans	18,076	239	92	-	18,407	18,428
Other loans	72	-	-	-	72	24,141
Total noncovered loans	120,354	3,946	4,053	109	128,462	769,990

Covered Loans: (1)

Loans secured by real estate:

Construction, land development and other land loans	133	77	28	-	238	2,363
---	-----	----	----	---	-----	-------

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Secured by 1-4 family residential properties	11,179	428	952	-	12,559	16,416
Secured by nonfarm, nonresidential properties	495	-	172	-	667	10,945
Other	617	342	-	-	959	2,644
Commercial and industrial loans	-	-	-	-	-	394
Consumer loans	119	-	-	-	119	119
Other loans	4	-	-	-	4	1,335
Total covered loans	12,547	847	1,152	-	14,546	34,216
Total acquired loans	\$132,901	\$4,793	\$5,205	\$ 109	\$143,008	\$804,206

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC.

TNB is at risk for only 20% of the losses incurred on these loans.

At June 30, 2014 and December 31, 2013, there were no acquired impaired loans accounted for under FASB ASC Topic 310-30 classified as nonaccrual loans. At June 30, 2014, approximately \$1.2 million of acquired loans not accounted for under FASB ASC Topic 310-30 were classified as nonaccrual loans, compared to approximately \$2.4 million of acquired loans at December 31, 2013.

28

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following tables provide an aging analysis of contractually past due and nonaccrual acquired loans, by class at June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014 Past Due				Current Loans	Total Acquired Loans
	30-89 Days	90 Days or More (1)	Total	Nonaccrual (2)		
Noncovered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	\$1,281	\$24,606	\$25,887	\$ 270	\$49,196	\$75,353
Secured by 1-4 family residential properties	3,754	6,171	9,925	85	123,181	133,191
Secured by nonfarm, nonresidential properties	3,997	12,690	16,687	161	210,119	226,967
Other	870	703	1,573	29	29,316	30,918
Commercial and industrial loans	942	1,461	2,403	527	111,282	114,212
Consumer loans	341	7	348	-	14,385	14,733
Other loans	-	87	87	-	21,450	21,537
Total noncovered loans	11,185	45,725	56,910	1,072	558,929	616,911
Covered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	284	608	892	-	1,238	2,130
Secured by 1-4 family residential properties	658	371	1,029	5	13,531	14,565
Secured by nonfarm, nonresidential properties	-	431	431	-	8,400	8,831
Other	33	302	335	-	2,041	2,376
Commercial and industrial loans	9	40	49	77	210	336
Consumer loans	-	-	-	-	-	-
Other loans	455	685	1,140	-	250	1,390
Total covered loans	1,439	2,437	3,876	82	25,670	29,628
Total acquired loans	\$12,624	\$48,162	\$60,786	\$ 1,154	\$584,599	\$646,539

(1)- Past due 90 days or more but still accruing interest.

(2)- Acquired loans not accounted for under FASB ASC Topic 310-30.

	December 31, 2013 Past Due				Current Loans	Total Acquired Loans
	30-89 Days	90 Days or More (1)	Total	Nonaccrual (2)		
Noncovered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	\$2,116	\$31,744	\$33,860	\$ 67	\$65,001	\$98,928
Secured by 1-4 family residential properties	5,067	7,589	12,656	116	145,142	157,914
Secured by nonfarm, nonresidential properties	7,978	15,421	23,399	461	263,276	287,136
Other	40	1,922	1,962	33	31,953	33,948
Commercial and industrial loans	743	3,387	4,130	1,170	144,195	149,495

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Consumer loans	239	92	331	-	18,097	18,428
Other loans	-	153	153	20	23,968	24,141
Total noncovered loans	16,183	60,308	76,491	1,867	691,632	769,990
Covered loans:						
Loans secured by real estate:						
Construction, land development and other land						
loans	87	553	640	445	1,278	2,363
Secured by 1-4 family residential properties	873	1,142	2,015	-	14,401	16,416
Secured by nonfarm, nonresidential properties	1,905	793	2,698	-	8,247	10,945
Other	710	2	712	-	1,932	2,644
Commercial and industrial loans	13	-	13	41	340	394
Consumer loans	-	-	-	-	119	119
Other loans	-	646	646	-	689	1,335
Total covered loans	3,588	3,136	6,724	486	27,006	34,216
Total acquired loans	\$19,771	\$63,444	\$83,215	\$ 2,353	\$718,638	\$804,206

(1)- Past due 90 days or more but still accruing interest.

(2)- Acquired loans not accounted for under FASB ASC Topic 310-30.

Note 6 – Mortgage Banking

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

	Six Months Ended	
	June 30,	
	2014	2013
Balance at beginning of period	\$67,834	\$47,341
Origination of servicing assets	5,179	10,661
Change in fair value:		
Due to market changes	(3,761)	7,594
Due to runoff	(4,203)	(5,216)
Balance at end of period	\$65,049	\$60,380

During the first six months of 2014 and 2013, Trustmark sold \$397.9 million and \$784.0 million, respectively, of residential mortgage loans. Pretax gains on these sales were recorded to noninterest income in mortgage banking, net and totaled \$4.6 million for the first six months of 2014 compared to \$17.8 million for the first six months of 2013. Trustmark's mortgage loans serviced for others totaled \$5.517 billion at June 30, 2014, compared with \$5.461 billion at December 31, 2013.

Trustmark is subject to losses in its loan servicing portfolio due to loan foreclosures. Trustmark has obligations to either repurchase the outstanding principal balance of a loan or make the purchaser whole for the economic benefits of a loan if it is determined that the loan sold was in violation of representations or warranties made by Trustmark at the time of the sale, herein referred to as mortgage loan servicing putback expenses. Such representations and warranties typically include those made regarding loans that had missing or insufficient file documentation and/or loans obtained through fraud by borrowers or other third parties. Putback requests may be made until the loan is paid in full. When a putback request is received, Trustmark evaluates the request and takes appropriate actions based on the nature of the request. Effective January 1, 2013, Trustmark was required by Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) to provide a response to putback requests within 60 days of the date of receipt. Currently, putback requests primarily relate to 2009 through 2013 vintage mortgage loans.

The total mortgage loan servicing putback expenses incurred by Trustmark during the first six months of 2014 and 2013 were \$300 thousand and \$885 thousand, respectively. During November 2013, Trustmark finalized its agreement with FNMA (the "Resolution Agreement") to resolve its existing and future repurchase and make whole obligations (collectively "Repurchase Obligations") related to mortgage loans originated between January 1, 2000 and December 31, 2008 and delivered to FNMA. Under the terms of the Resolution Agreement, Trustmark paid FNMA approximately \$3.6 million with respect to the Repurchase Obligations. Trustmark believes that it was in its best interests to execute the Resolution Agreement in order to bring finality to the loss reimbursement exposure with FNMA for these years and reduce the resources spent on individual file reviews and defending loss reimbursement requests. The Repurchase Obligations were covered by Trustmark's existing reserve for mortgage loan servicing putback expenses. At June 30, 2014 and December 31, 2013, the reserve for mortgage loan servicing putback expenses totaled \$947 thousand and \$1.1 million, respectively.

There is inherent uncertainty in reasonably estimating the requirement for reserves against future mortgage loan servicing putback expenses. Future putback expenses are dependent on many subjective factors, including the review procedures of the purchasers and the potential refinance activity on loans sold with servicing released and the subsequent consequences under the representations and warranties. Trustmark believes that it has appropriately reserved for potential mortgage loan servicing putback requests.

Note 7 – Other Real Estate and Covered Other Real Estate

Other Real Estate, excluding Covered Other Real Estate

At June 30, 2014, Trustmark's geographic other real estate distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. The ultimate recovery of a substantial portion of the carrying amount of other real estate, excluding covered other real estate, is susceptible to changes in market conditions in these areas.

30

Edgar Filing: TRUSTMARK CORP - Form 10-Q

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

	Six Months Ended	
	June 30,	
	2014	2013
Balance at beginning of period	\$106,539	\$78,189
Additions (1)	24,601	60,511
Disposals	(20,827)	(16,564)
Writedowns	(3,343)	(4,424)
Balance at end of period	\$106,970	\$117,712
Gain (Loss), net on the sale of other real estate included in ORE/Foreclosure expense	\$636	\$(252)

(1) Additions as of June 30, 2013 included \$40.1 million of other real estate acquired from BancTrust on February 15, 2013.

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

	June 30,	December
	2014	31,
		2013
Construction, land development and other land properties	\$66,739	\$65,273
1-4 family residential properties	12,133	14,696
Nonfarm, nonresidential properties	26,300	26,433
Other real estate properties	1,798	137
Total other real estate, excluding covered other real estate	\$106,970	\$106,539

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

	June 30,	December
	2014	31,
		2013
Alabama	\$24,541	\$25,912
Florida	43,207	34,480
Mississippi (1)	18,723	22,766
Tennessee (2)	12,073	12,892
Texas	8,426	10,489
Total other real estate, excluding covered other real estate	\$106,970	\$106,539

(1) - Mississippi includes Central and Southern Mississippi Regions

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

31

Covered Other Real Estate

For the six months ended June 30, 2014 and 2013, changes and (losses) gains, net on covered other real estate were as follows (\$ in thousands):

	Six Months Ended June 30,	
	2014	2013
Balance at beginning of period	\$5,108	\$5,741
Transfers from covered loans	218	1,162
FASB ASC 310-30 adjustment for the residual recorded investment	(39)	(470)
Net transfers from covered loans	179	692
Disposals	(632)	(672)
Writedowns	(783)	(614)
Balance at end of period	\$3,872	\$5,147
(Loss) Gain, net on the sale of covered other real estate included in ORE/Foreclosure expense	\$ (109)	\$ 76

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

	June 30, 2014	December 31, 2013
Construction, land development and other land properties	\$721	\$ 733
1-4 family residential properties	1,403	1,981
Nonfarm, nonresidential properties	1,748	2,394
Total covered other real estate	\$3,872	\$ 5,108

Note 8 – FDIC Indemnification Asset

Pursuant to the provisions of the loss-share agreement, TNB may be required to make a true-up payment to the FDIC at the termination of the loss-share agreement should actual losses be less than certain thresholds established in the agreement. TNB calculates the projected true-up payable to the FDIC quarterly and records a FDIC true-up provision for the present value of the projected true-up payable to the FDIC at the termination of the loss-share agreement. TNB's FDIC true-up provision totaled \$2.0 million and \$1.7 million at June 30, 2014 and December 31, 2013, respectively.

Trustmark periodically re-estimates the expected cash flows on the acquired covered loans as required by FASB ASC Topic 310-30. For the first six months of 2014 and 2013, this analysis resulted in improvements in the estimated future cash flows of the acquired covered loans that remain outstanding as well as lower expected remaining losses on those loans, primarily due to pay-offs of acquired covered loans. The pay-offs and improvements in the estimated expected cash flows of the acquired covered loans resulted in a reduction of the expected loss-share receivable from the FDIC. Reductions of the FDIC indemnification asset resulting from improvements in expected cash flows and covered losses based on the re-estimation of acquired covered loans are amortized over the lesser of the remaining life or contractual period of the acquired covered loan as a yield adjustment consistent with the associated acquired covered loan. Other noninterest income for the first six months of 2014 included \$1.1 million of amortization of the FDIC indemnification asset, compared to \$41 thousand of accretion for the first six months of 2013, as a result of improvements in the expected cash flows and lower loss expectations. During the first six months of 2014 and 2013, other noninterest income included a reduction of the FDIC indemnification asset of \$561 thousand and \$3.7 million, respectively, primarily resulting from loan pay-offs partially offset by loan pools of acquired covered loans with increased loss expectations.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

For the six months ended June 30, 2014 and 2013, changes in the FDIC indemnification asset were as follows (\$ in thousands):

	Six Months Ended	
	June 30,	
	2014	2013
Balance at beginning of period	\$14,347	\$21,774
(Amortization) Accretion	(1,127)	41
Transfers to FDIC claims	(1,761)	(608)
Change in expected cash flows	(293)	(3,740)
Change in FDIC true-up provision	(300)	(125)
Balance at end of period	\$10,866	\$17,342

Note 9 – Deposits

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

	December	
	June 30,	31,
	2014	2013
Noninterest-bearing demand deposits	\$2,729,199	\$2,663,503
Interest-bearing demand	1,805,921	1,923,701
Savings	3,225,382	2,997,294
Time	2,099,864	2,275,404
Total	\$9,860,366	\$9,859,902

Note 10 – Defined Benefit and Other Postretirement Benefits

Qualified Pension Plans

Trustmark maintains a noncontributory defined benefit pension plan (Trustmark Capital Accumulation Plan), in which substantially all associates employed prior to 2007 participate. 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. Plan benefits were frozen during 2009, with the exception of certain associates covered through plans obtained by acquisitions that were subsequently merged into the Trustmark plan. Associates have not earned additional benefits, except for interest as required by Internal Revenue Service (IRS) regulations, since the plan was frozen. Associates will retain their previously earned pension benefits.

As a result of the BancTrust acquisition on February 15, 2013, Trustmark acquired a qualified pension plan (BancTrust Pension Plan), which was frozen prior to the acquisition date. On January 28, 2014, Trustmark's Board of Directors authorized the termination of the BancTrust Pension Plan effective as of April 15, 2014. The IRS has been asked to review the BancTrust Pension Plan's tax qualification at its termination, and it is anticipated that the IRS will issue a determination letter once its review is complete. A termination notice has been filed with the Pension Benefit Guaranty Corporation (PBGC) and it is not anticipated that the PBGC will raise any issues with respect to the plan's termination. Plan assets of the BancTrust Pension Plan will continue to be held in trust until the termination distributions are made. The termination of the BancTrust Pension Plan is not expected to have a material impact on net periodic pension cost between the plan termination date and the date final termination distributions are made.

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

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Net periodic benefit cost:				
Service cost	\$125	\$148	\$249	\$298
Interest cost	1,322	1,264	2,643	2,254
Expected return on plan assets	(1,560)	(2,059)	(3,118)	(3,600)
Recognized net loss due to settlement	375	525	750	525
Recognized net actuarial loss	736	1,374	1,472	2,768
Net periodic benefit cost	\$998	\$1,252	\$1,996	\$2,245

33

The range of potential contributions to Trustmark's qualified pension plans is determined annually by the plans' actuary in accordance with applicable IRS rules and regulations. Trustmark's policy is to fund amounts that are sufficient to satisfy the annual minimum funding requirements and are deductible for federal income tax purposes. The actual amount of the contribution is determined annually based on the plans' funded status and return on plan assets as of the measurement date, which is December 31. For the plan year ending December 31, 2014, the minimum required contribution for Trustmark's qualified pension plans is expected to be \$1.8 million.

Supplemental Retirement Plans

Trustmark maintains a nonqualified supplemental retirement plan covering directors who elected to defer fees, key executive officers and senior officers. The plan provides for defined death benefits and/or retirement benefits based on a participant's 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. As a result of the BancTrust acquisition on February 15, 2013, Trustmark acquired a nonqualified supplemental retirement plan, which plan benefits were frozen prior to the acquisition date. The following table presents information regarding net periodic benefit cost for Trustmark's nonqualified supplemental retirement plans for the periods presented (\$ in thousands):

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2013	2014	2013	2014
Net periodic benefit cost:				
Service cost	\$75	\$149	\$148	\$298
Interest cost	548	484	1,102	968
Amortization of prior service cost	62	63	125	126
Recognized net actuarial loss	163	259	333	518
Net periodic benefit cost	\$848	\$955	\$1,708	\$1,910

Note 11 – Stock and Incentive Compensation Plans

Trustmark has granted 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. At June 30, 2014, no awards remain outstanding under the 1997 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 1997 Plan and the 2005 Plan were granted with an exercise price equal to the market price of Trustmark's stock on the date of grant, and vested equally in annual increments. No stock options have been granted since 2006, when Trustmark began granting restricted stock awards exclusively.

Restricted Stock Grants

Performance Awards

Trustmark's performance awards are granted to Trustmark's executive and senior management team. Performance awards granted vest based on performance goals of return on average tangible equity (ROATE) and total shareholder return (TSR) compared to a defined peer group. Performance awards are valued utilizing a Monte Carlo simulation model to estimate fair value of the awards at the grant date. These awards are recognized using the straight-line method over the requisite service period. These awards provide for achievement shares if performance measures exceed 100%. The restricted share agreement provides for voting rights and dividend privileges.

Time-Vested Awards

Trustmark's time-vested awards are granted to Trustmark's Board of Directors, executive and senior management team. 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.

34

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table summarizes the stock and incentive plans' vesting periods and contractual terms in years:

	Vesting Period	Contractual Term
Stock option awards - 1997 plan	4	10
Stock option awards - 2005 plan	5	7
Performance awards (includes achievement shares for grants after 2013)	3	-
Achievement shares from performance grants prior to 2013	3	-
Time-vested awards	3	-

The following tables summarize the stock and incentive plan activity for the periods presented:

	Three Months Ended June 30, 2014		
	Stock Options	Performance Awards	Time-Vested Awards
Outstanding/Nonvested shares or units, beginning of period	99,450	184,133	333,738
Granted	-	-	500
Exercised or released from restriction	-	-	(367)
Expired	(99,450)	-	-
Forfeited	-	-	(2,688)
Outstanding/Nonvested shares or units, end of period	-	184,133	331,183

	Six Months Ended June 30, 2014		
	Stock Options	Performance Awards	Time-Vested Awards
Outstanding/Nonvested shares or units, beginning of period	105,450	160,520	291,634
Granted	-	73,726	104,190
Exercised or released from restriction	-	(38,580)	(60,706)
Expired	(105,450)	-	-
Forfeited	-	(11,533)	(3,935)
Outstanding/Nonvested shares or units, end of period	-	184,133	331,183

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

	Three Months			
	Ended June 30, 2014		Six Months Ended June 30, 2013	
Compensation expense - Stock and Incentive plans:				
Performance awards	\$267	\$187	\$530	\$398
Time-vested awards	777	665	1,705	1,476
Total	\$1,044	\$852	\$2,235	\$1,874

Note 12 – Contingencies

Lending Related

Trustmark makes commitments to extend credit and issues standby and commercial letters of credit (letters of credit) in the normal course of business in order to fulfill the financing needs of its customers. The carrying amount of commitments to extend credit and letters of credit approximates the fair value of such financial instruments. These

amounts are not material to Trustmark's financial statements.

Commitments to extend credit are agreements to lend money to customers pursuant to certain specified conditions. Commitments generally have fixed expiration dates or other termination clauses. Because many of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contract amount of those instruments. Trustmark applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed creditworthiness of the borrower. At June 30, 2014 and 2013, Trustmark had unused commitments to extend credit of \$2.223 billion and \$1.963 billion, respectively.

35

Letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third-party. 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 June 30, 2014 and 2013, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was \$147.5 million and \$164.0 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 June 30, 2014, the fair value of collateral held was \$38.0 million.

Legal Proceedings

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in two lawsuits related to the collapse of the Stanford Financial Group. The first is 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 Trustmark as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount of fees and other monies 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 on the asserted grounds that defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme. Plaintiffs have demanded a jury trial. Plaintiffs did not quantify damages. 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. In May 2010, all defendants (including TNB) filed motions to dismiss the lawsuit, and the motions to dismiss have been fully briefed by all parties. The court has not yet ruled on TNB's motion to dismiss. In August 2010, the court authorized and approved the formation of an Official Stanford Investors Committee ("OSIC") to represent the interests of Stanford investors and, under certain circumstances, to file legal actions for the benefit of Stanford investors. In December 2011, the OSIC filed a motion to intervene in this action. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues. In December 2012, the court granted the OSIC's motion to intervene, and the OSIC filed an Intervenor Complaint against one of the other defendant financial institutions. In February 2013, the OSIC filed an additional Intervenor Complaint that asserts claims against TNB and the remaining defendant financial institutions. The OSIC seeks to recover: (i) alleged fraudulent transfers in the amount of the fees each of the defendants allegedly received from Stanford Financial Group, the profits each of the defendants allegedly made from Stanford Financial Group deposits, and other monies each of the defendants allegedly received from Stanford Financial Group; (ii) damages attributable to alleged conspiracies by each of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud and conversion on the asserted grounds that the defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme; and (iii) punitive damages. The OSIC did not quantify damages. In July 2013, all defendants (including TNB) filed motions to dismiss the OSIC's claims. The court has not yet ruled on TNB's motion to dismiss the OSIC's claims.

The second Stanford-related lawsuit was filed on December 14, 2009 in the District Court of Ascension Parish, Louisiana, individually by Harold Jackson, Paul Blaine, Carolyn Bass Smith, Christine Nichols, and Ronald and Ramona Hebert naming TNB (misnamed as Trust National Bank) and other individuals and entities not affiliated with Trustmark as defendants. The complaint seeks to recover the money lost by these individual plaintiffs as a result of the collapse of the Stanford Financial Group (in addition to other damages) under various theories and causes of action, including negligence, breach of contract, breach of fiduciary duty, negligent misrepresentation, detrimental reliance, conspiracy, and violation of Louisiana's uniform fiduciary, securities, and racketeering laws. The complaint

does not quantify the amount of money the plaintiffs seek to recover. In January 2010, 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. On March 29, 2010, the court stayed the case. TNB filed a motion to lift the stay, which was denied on February 28, 2012. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues.

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. Both Stanford-related lawsuits are in their preliminary stages and have been previously disclosed by Trustmark.

TNB was the defendant in two putative class actions challenging TNB's practices regarding "overdraft" or "non-sufficient funds" fees charged by TNB in connection with customer use of debit cards, including TNB's order of processing transactions, notices and calculations of charges, and calculations of fees. Both of those cases have now been dismissed pursuant to a court-approved class action settlement. The period has ended in which any party could appeal the order approving the settlement.

36

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The settlement of \$4.0 million, or \$2.5 million net of taxes, was included in other noninterest expense for the quarter ended June 30, 2013. The Settlement Administrator has begun distributing the settlement funds. The settlement resolved potential claims of more than 100,000 class members. A total of sixteen customers excluded themselves from the class action settlement. None of those customers have subsequently asserted any claim or made demands on TNB due to overdraft or non-sufficient funds fees.

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.

All pending legal proceedings described above 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 (i) the final resolution of pending legal proceedings described above will not, individually or in the aggregate, have a material impact on Trustmark's consolidated financial position or results of operations and (ii) a loss in any such case is not probable at this time, and thus no accrual is required under FASB ASC Topic 450-20, "Loss Contingencies." In addition, given the preliminary nature of these matters and the lack of any quantification by plaintiffs of the relief being sought, to the extent that a loss in any such matter may be viewed as reasonably possible under FASB ASC Topic 450-20, it is not possible at this time to provide an estimate of any such possible loss (or range of possible loss) for any such matter.

Note 13 – Earnings Per Share (EPS)

The following table reflects weighted-average shares used to calculate basic and diluted EPS for the periods presented (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Basic shares	67,440	67,163	67,425	66,576
Dilutive shares	143	181	142	173
Diluted shares	67,583	67,344	67,567	66,749

Weighted-average antidilutive stock awards were excluded in determining diluted EPS. The following table reflects weighted-average antidilutive stock awards for the periods presented (in thousands):

	Three		Six	
	Months		Months	
	Ended		Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Weighted-average antidilutive stock awards	21	374	63	434

Note 14 – Statements of Cash Flows

The following table reflects specific transaction amounts for the periods presented (\$ in thousands):

	Six Months Ended	
	June 30,	
	2014	2013

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Income taxes paid	\$12,915	\$13,920
Interest expense paid on deposits and borrowings	11,780	12,580
Noncash transfers from loans to other real estate (1)	24,780	20,700
Assets acquired in business combinations	-	1,849,929
Liabilities assumed in business combinations	-	1,821,066

(1) Includes transfers from covered loans to covered other real estate.

37

Note 15 – Shareholders' Equity

Regulatory Capital

Trustmark and TNB are subject to minimum capital requirements, which are administered by the federal bank regulatory agencies. These capital requirements, as defined by federal regulations, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Failure to meet minimum capital requirements can result in 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 June 30, 2014, Trustmark and TNB exceeded all of the minimum capital standards for the parent company and its primary banking subsidiary as established by regulatory requirements. In addition, TNB met applicable regulatory guidelines to be considered well-capitalized at June 30, 2014. To be categorized in this manner, TNB must maintain minimum total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the accompanying table. There are no significant conditions or events that have occurred since June 30, 2014, which Management believes have affected Trustmark's or TNB's present classification.

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

	Actual		Minimum		Minimum			
	Regulatory	Capital	Regulatory	Capital	Regulatory			
	Amount	Ratio	Amount	Ratio	Provision to be		Well-Capitalized	
					Amount	Ratio		
At June 30, 2014:								
Total Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$1,188,748	14.54%	\$654,050	8.00%	n/	a	n/	a
Trustmark National Bank	1,165,481	14.28%	652,784	8.00%	\$815,981	10.00%		
Tier 1 Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$1,090,953	13.34%	\$327,025	4.00%	n/	a	n/	a
Trustmark National Bank	1,069,227	13.10%	326,392	4.00%	\$489,588	6.00%		
Tier 1 Capital (to Average Assets)								
Trustmark Corporation	\$1,090,953	9.43%	\$462,861	4.00%	n/	a	n/	a
Trustmark National Bank	1,069,227	9.25%	462,214	4.00%	\$577,767	5.00%		
At December 31, 2013:								
Total Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$1,122,904	14.18%	\$633,310	8.00%	n/	a	n/	a
Trustmark National Bank	1,076,391	13.74%	626,672	8.00%	\$783,340	10.00%		
Tier 1 Capital (to Risk Weighted Assets)								
Trustmark Corporation	\$1,026,858	12.97%	\$316,655	4.00%	n/	a	n/	a
Trustmark National Bank	982,925	12.55%	313,336	4.00%	\$470,004	6.00%		
Tier 1 Capital (to Average Assets)								
Trustmark Corporation	\$1,026,858	9.06%	\$453,487	4.00%	n/	a	n/	a
Trustmark National Bank	982,925	8.76%	448,665	4.00%	\$560,831	5.00%		

Accumulated Other Comprehensive Loss

The following table presents the components of other comprehensive income (loss) and the related tax effects allocated to each component for the six months ended June 30, 2014 and 2013 (\$ in thousands). Reclassification adjustments related to securities available for sale are included in securities gains, net in the accompanying consolidated statements of income. The amortization of prior service cost, recognized net loss due to settlement and recognized net actuarial loss on pension and other postretirement benefit plans are included in the computation of net periodic benefit cost (see Note 10 – Defined Benefit and Other Postretirement Benefits for additional details).

38

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Six Months Ended June 30, 2014:			
Securities available for sale and transferred securities:			
Unrealized holding gains arising during the period	\$17,807	\$ (6,811)	\$10,996
Reclassification adjustment for net gains realized in net income	(389)	149	(240)
Change in net unrealized holding loss on securities transferred to held to maturity	2,806	(1,073)	1,733
Total securities available for sale and transferred securities	20,224	(7,735)	12,489
Pension and other postretirement benefit plans:			
Net change in prior service costs	125	(48)	77
Recognized net loss due to settlement	750	(287)	