TRUSTMARK CORP
Form 10-Q
November 08, 2011

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

Form 10-Q

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from ____________________ to ____________________

Commission file number 000-03683

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

Mississippi (State or other jurisdiction of incorporation or organization)	64-0471500 (I.R.S. Employer Identification No.)
248 East Capitol Street, Jackson, Mississippi (Address of principal executive offices)	39201 (Zip Code)

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

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

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 R No o

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 R	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 31, 2011, there were 64,119,235 shares outstanding of the registrant's common stock (no par value).

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) September 30, 2011	December 31, 2010
Assets		
Cash and due from banks (noninterest-bearing)	$245,132	$161,544
Federal funds sold and securities purchased under reverse repurchase agreements	8,810	11,773
Securities available for sale (at fair value)	2,476,905	2,177,249
Securities held to maturity (fair value: $76,007-2011; $145,143-2010)	71,046	140,847
Loans held for sale (LHFS)	210,269	153,044
Loans held for investment (LHFI), excluding covered loans	5,783,712	6,060,242
Less allowance for loan losses	89,463	93,510
Net LHFI, excluding covered loans	5,694,249	5,966,732
Covered loans	79,064	-
Net LHFI and covered loans	5,773,313	5,966,732
Premises and equipment, net	141,639	142,289
Mortgage servicing rights	43,659	51,151
Goodwill	291,104	291,104
Identifiable intangible assets	14,861	16,306
Other real estate, excluding covered other real estate	89,597	86,704
Covered other real estate	7,197	-
FDIC indemnification asset	33,436	-
Other assets	298,953	355,159
Total Assets	$9,705,921	$9,553,902
Liabilities		
Deposits:		
Noninterest-bearing	$1,871,040	$1,636,625
Interest-bearing	5,698,684	5,407,942
Total deposits	7,569,724	7,044,567
Federal funds purchased and securities sold under repurchase agreements	576,672	700,138
Short-term borrowings	98,887	425,343
Long-term FHLB advances	741	-
Subordinated notes	49,831	49,806
Junior subordinated debt securities	61,856	61,856
Other liabilities	126,604	122,708
Total Liabilities	8,484,315	8,404,418
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 64,119,235 shares - 2011; 63,917,591 shares - 2010	13,359	13,318

Capital surplus	264,750	256,675
Retained earnings	923,891	890,917
Accumulated other comprehensive income (loss), net of tax	19,606	(11,426)
Total Shareholders' Equity	1,221,606	1,149,484
Total Liabilities and Shareholders' Equity	$9,705,921	$9,553,902

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	$76,343	$80,767	$229,926	$244,095
Interest on securities:				
Taxable	18,115	18,641	58,481	58,002
Tax exempt	1,401	1,352	4,159	4,167
Interest on federal funds sold and securities purchased under reverse repurchase agreements	5	9	20	24
Other interest income	329	332	994	1,081
Total Interest Income	96,193	101,101	293,580	307,369
Interest Expense				
Interest on deposits	9,455	11,609	29,110	38,298
Interest on federal funds purchased and securities sold under repurchase agreements	216	294	770	780
Other interest expense	842	1,631	3,815	4,820
Total Interest Expense	10,513	13,534	33,695	43,898
Net Interest Income	85,680	87,567	259,885	263,471
Provision for loan losses	7,978	12,259	23,631	37,752
Net Interest Income After Provision for Loan Losses	77,702	75,308	236,254	225,719
Noninterest Income				
Service charges on deposit accounts	13,680	14,493	38,438	41,690
Insurance commissions	7,516	7,746	20,890	21,467
Wealth management	5,993	5,199	17,739	16,112
Bank card and other fees	7,033	6,235	20,362	18,532
Mortgage banking, net	9,783	9,861	20,774	24,843
Other, net	234	441	8,781	2,423
Securities gains, net	33	4	91	2,228
Total Noninterest Income	44,272	43,979	127,075	127,295
Noninterest Expense				
Salaries and employee benefits	44,701	44,034	132,940	130,170
Services and fees	11,485	10,709	32,535	31,487
Net occupancy - premises	5,093	4,961	15,216	14,912
Equipment expense	5,038	4,356	15,038	12,906
FDIC assessment expense	1,812	3,037	6,500	9,219
ORE/Foreclosure expense	5,616	8,728	13,533	21,067
Other expense	11,736	8,598	31,085	25,451
Total Noninterest Expense	85,481	84,423	246,847	245,212
Income Before Income Taxes	36,493	34,864	116,482	107,802

Income taxes	9,525	9,004	33,899	32,326
Net Income	$26,968	$25,860	$82,583	$75,476
Earnings Per Common Share				
Basic	$0.42	$0.40	$1.29	$1.18
Diluted	$0.42	$0.40	$1.29	$1.18
Dividends Per Common Share	$0.23	$0.23	$0.69	$0.69

See notes to consolidated financial statements.

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

	2011	2010
Balance, January 1,	$1,149,484	$1,110,060
Net income per consolidated statements of income	82,583	75,476
Other comprehensive income:		
Net change in fair value of securities available for sale	28,779	9,561
Net change in defined benefit plans	2,253	1,711
Comprehensive income	113,615	86,748
Common stock dividends paid	(44,614)	(44,473)
Common stock issued-net, long-term incentive plans:		
Stock options	1,507	2,480
Restricted stock	(1,867)	(1,008)
Excess tax benefit from stock-based compensation arrangements	553	1,357
Compensation expense, long-term incentive plans	2,928	3,688
Other	-	(60)
Balance, September 30,	$1,221,606	$1,158,792

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Operating Activities		
Net income	$82,583	$75,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	23,631	37,752
Depreciation and amortization	18,523	18,626
Net amortization of securities	6,092	2,087
Securities gains, net	(91)	(2,228)
Gains on sales of loans, net	(7,320)	(9,562)
Decrease in FDIC indemnification asset	117	-
Bargain purchase gain on acquisition	(7,456)	-
Deferred income tax benefit	(6,735)	(11,460)
Proceeds from sales of loans held for sale	664,099	792,321
Purchases and originations of loans held for sale	(692,958)	(810,356)
Originations and sales of mortgage servicing rights, net	(9,581)	(11,071)
Net decrease in other assets	40,930	23,720
Net decrease in other liabilities	(3,898)	(11,163)
Other operating activities, net	25,278	32,878
Net cash provided by operating activities	133,214	127,020
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	69,874	64,208
Proceeds from calls and maturities of securities available for sale	482,918	405,974
Proceeds from sales of securities available for sale	22,996	65,074
Purchases of securities available for sale	(747,383)	(688,766)
Net decrease (increase) in federal funds sold and securities purchased under reverse repurchase agreements	3,963	(281)
Net decrease in loans	227,687	222,924
Purchases of premises and equipment	(8,393)	(4,924)
Proceeds from sales of premises and equipment	536	22
Proceeds from sales of other real estate	36,277	40,921
Net cash received in business combination	78,896	-
Net cash provided by investing activities	167,371	105,152
Financing Activities		
Net increase (decrease) in deposits	320,808	(163,129)
Net decrease in federal funds purchased and securities sold under repurchase agreements	(123,466)	(19,967)
Net decrease in short-term borrowings	(369,765)	(24,815)
Payments from calls of long-term FHLB advances	(153)	-
Common stock dividends	(44,614)	(44,473)

Common stock issued-net, long-term incentive plans	(360)	1,472
Excess tax benefit from stock-based compensation arrangements	553	1,357
Net cash used in financing activities	(216,997)	(249,555)
Increase (decrease) in cash and cash equivalents	83,588	(17,383)
Cash and cash equivalents at beginning of period	161,544	213,519
Cash and cash equivalents at end of period	$245,132	$196,136

See notes to consolidated financial statements

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 multi-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 over 150 offices in 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 U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2010 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 2011 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 covered assets and the 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

On April 15, 2011, the Mississippi Department of Banking and Consumer Finance closed the Heritage Banking Group (Heritage), a 90-year old financial institution headquartered in Carthage, Mississippi, and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. On the same date, Trustmark National Bank (TNB) entered into a purchase and assumption agreement with the FDIC in which TNB agreed to assume all of the deposits and purchased essentially all of the assets of Heritage. The FDIC and TNB entered into a loss-share transaction on approximately $151.9 million of Heritage assets, which covers substantially all loans and all other real estate. Under the loss share agreement, the FDIC will cover 80% of covered loan and other real estate losses incurred. Because of the loss protection provided by the FDIC, the risk characteristics of the Heritage loans and other real estate are significantly different from those assets not covered by this agreement. As a result, Trustmark will refer to loans and other real estate subject to the loss share agreement as “covered” while loans and other real estate that are not subject to the loss share agreement will be referred to as “excluding covered.” The loss share agreement applicable to single family residential mortgage loans and related foreclosed real estate provides for FDIC loss sharing and TNB’s reimbursement to the FDIC for recoveries of covered losses for ten years from the date on which the loss share agreement was entered. The loss share agreement applicable to commercial loans and related foreclosed real estate provides for FDIC loss sharing for five years from the date on which the loss share agreement was entered and TNB’s reimbursement to the FDIC for recoveries of covered losses for an additional three years thereafter.

Pursuant to the clawback provisions of the Heritage loss share agreement, Trustmark may be required to reimburse the FDIC should actual losses be less than certain thresholds established in the agreement. To the extent that actual losses on covered loans and covered other real estate are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreement will increase. To the extent that actual losses on covered loans and covered other real estate are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreement will decrease. At September 30, 2011, Trustmark had no clawback payable to the FDIC.

The assets purchased and liabilities assumed for the Heritage acquisition have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, are recorded at their estimated fair values as of the acquisition date. The fair value amounts are subject to change for up to one year after the closing date as additional information relating to closing date fair values becomes available. The amounts are also subject to adjustments based upon final settlement with the FDIC.

The statement of assets purchased and liabilities assumed in the Heritage acquisition are presented below at their estimated fair values as of the acquisition date of April 15, 2011 ($ in thousands):

Assets		
Cash and due from banks	$	50,447
Federal funds sold		1,000
Securities available for sale		6,389
LHFI, excluding covered loans		9,644
Covered loans		97,770
Premises and equipment, net		55
Identifiable intangible assets		902
Covered other real estate		7,485
FDIC indemnification asset		33,333
Other assets		218
Total Assets		207,243

Liabilities		
Deposits		204,349
Short-term borrowings		23,157
Other liabilities		730
Total Liabilities		228,236
Net assets acquired at fair value		(20,993)
Cash received on acquisition		28,449
Bargain purchase gain		7,456
Income taxes		2,852
Bargain purchase gain, net of taxes	$	4,604

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 FHLB advances (shown as short-term borrowings above). Level 3 inputs were used to determine the fair value of both LHFI and covered loans, identifiable intangible assets, covered other real estate and FDIC indemnification asset. 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.

LHFI and Covered 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.

Covered Other Real Estate

Covered 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.

FDIC Indemnification Asset

The FDIC indemnification asset was initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement.

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 account’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 15 – Fair Value for more information on Trustmark’s classification of financial instruments based on valuation inputs within the fair value hierarchy.

The bargain purchase gain represents the net of the estimated fair value of the assets acquired and liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The pretax gain of $7.5 million recognized by Trustmark is considered a bargain purchase transaction under FASB ASC Topic 805, “Business Combinations.” The gain was recognized as other noninterest income in Trustmark’s consolidated statements of income for the nine months ended September 30, 2011.

The operations of Heritage are included in Trustmark’s operating results from April 15, 2011, and added revenue of $11.1 million and net income available to common shareholders of $5.9 million through September 30, 2011. Such operating results are not necessarily indicative of future operating results. Trustmark believes that given the nature of the assets and liabilities assumed, the significant amount of fair value adjustments and the FDIC loss sharing agreements now in place, historical results of Heritage are not meaningful to Trustmark’s results of operations and thus no pro forma information is presented.

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			
September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. Government agency obligations								
Issued by U.S. Government agencies	$ 5	$ -	$ -	$ 5	$ -	$ -	$ -	$ -
Issued by U.S. Government sponsored agencies	61,599	309	(38)	61,870	-	-	-	-
Obligations of states and political subdivisions	198,860	8,962	(41)	207,781	43,246	4,097	(4)	47,339
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	13,650	987	-	14,637	5,291	353	-	5,644
Issued by FNMA and FHLMC	392,598	7,991	-	400,589	753	34	-	787
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,524,422	55,276	-	1,579,698	19,534	307	-	19,841
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	204,990	7,335	-	212,325	2,222	174	-	2,396
Total	$ 2,396,124	$ 80,860	$ (79)	$ 2,476,905	$ 71,046	$ 4,965	$ (4)	$ 76,007
December 31, 2010								
U.S. Government agency obligations								
	$ 12	$ -	$ -	$ 12	$ -	$ -	$ -	$ -

Issued by U.S. Government agencies								
Issued by U.S. Government sponsored agencies	124,093	114	(2,184)	122,023	-	-	-	-
Obligations of states and political subdivisions	159,418	2,259	(2,040)	159,637	53,246	2,628	(10)	55,864
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	11,719	723	-	12,442	6,058	171	-	6,229
Issued by FNMA and FHLMC	432,162	1,188	(6,846)	426,504	763	6	-	769
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,361,339	43,788	(4,311)	1,400,816	78,526	1,503	-	80,029
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	54,331	2,007	(523)	55,815	2,254	-	(2)	2,252
Total	$ 2,143,074	$ 50,079	$ (15,904)	$ 2,177,249	$ 140,847	$ 4,308	$ (12)	$ 145,143

Temporarily Impaired Securities

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

	Less than 12 Months		12 Months or More		Total	
September 30, 2011	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)
U.S. Government agency obligations						
Issued by U.S. Government sponsored agencies	$9,957	$(38)	$-	$-	$9,957	$(38)
Obligations of states and political subdivisions	3,475	(34)	300	(11)	3,775	(45)
Total	$13,432	$(72)	$300	$(11)	$13,732	$(83)

December 31, 2010

U.S. Government agency obligations						
Issued by U.S. Government sponsored agencies	$86,917	$(2,184)	$-	$-	$86,917	$(2,184)
Obligations of states and political subdivisions	65,523	(2,045)	307	(5)	65,830	(2,050)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Issued by FNMA and FHLMC	312,787	(6,846)	-	-	312,787	(6,846)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	232,279	(4,311)	-	-	232,279	(4,311)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	21,073	(525)	-	-	21,073	(525)
Total	$718,579	$(15,911)	$307	$(5)	$718,886	$(15,916)

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Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, Management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of Trustmark to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses shown above are primarily due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at September 30, 2011. There were no other-than-temporary impairments for the nine months ended September 30, 2011 and 2010.

Management has evaluated Trustmark's investment portfolio and has determined that neither the S&P downgrade of U.S. long-term sovereign debt nor the resulting market volatility has created a significant decline in the fair value of Trustmark's investment portfolio. Management will continue to monitor market activity and other events to determine if additional action will be necessary.

Security Gains and Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Available for Sale	2011	2010	2011	2010
Proceeds from calls and sales of securities	$ 1,175	$ -	$ 24,171	$ 65,074
Gross realized gains	5	-	57	2,216
Held to Maturity				
Proceeds from calls of securities	$ 2,355	$ 1,210	$ 3,645	$ 4,960
Gross realized gains	28	4	34	12

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

Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at September 30, 2011, 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	$45,283	$45,322	$2,653	$2,680
Due after one year through five years	50,639	52,721	12,919	13,498
Due after five years through ten years	153,247	159,940	19,809	21,992
Due after ten years	11,295	11,673	7,865	9,169
	260,464	269,656	43,246	47,339
Mortgage-backed securities	2,135,660	2,207,249	27,800	28,668
Total	$2,396,124	$2,476,905	$71,046	$76,007

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

For the periods presented, LHFI, excluding covered loans, consisted of the following ($ in thousands):

	September 30, 2011	December 31, 2010
Loans secured by real estate:		
Construction, land development and other land loans	$ 481,821	$ 583,316
Secured by 1-4 family residential properties	1,717,366	1,732,056
Secured by nonfarm, nonresidential properties	1,437,573	1,498,108
Other	207,984	231,963
Commercial and industrial loans	1,083,753	1,068,369
Consumer loans	268,002	402,165
Other loans	587,213	544,265
LHFI, excluding covered loans	5,783,712	6,060,242
Less allowance for loan losses	89,463	93,510
Net LHFI, excluding covered loans	$ 5,694,249	$ 5,966,732

The following table details LHFI, excluding covered loans, individually and collectively evaluated for impairment at September 30, 2011 and December 31, 2010 ($ in thousands):

	September 30, 2011 LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$ 29,594	$ 452,227	$ 481,821
Secured by 1-4 family residential properties	23,558	1,693,808	1,717,366
Secured by nonfarm, nonresidential properties	25,303	1,412,270	1,437,573
Other	4,821	203,163	207,984
Commercial and industrial loans	14,204	1,069,549	1,083,753
Consumer loans	907	267,095	268,002
Other loans	1,191	586,022	587,213
Total	$ 99,578	$ 5,684,134	$ 5,783,712

	December 31, 2010 LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$ 57,831	$ 525,485	$ 583,316
Secured by 1-4 family residential properties	30,313	1,701,743	1,732,056
Secured by nonfarm, nonresidential properties	29,013	1,469,095	1,498,108
Other	6,154	225,809	231,963
Commercial and industrial loans	16,107	1,052,262	1,068,369
Consumer loans	2,112	400,053	402,165
Other loans	1,393	542,872	544,265
Total	$ 142,923	$ 5,917,319	$ 6,060,242

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At September 30, 2011, Trustmark's geographic loan distribution was concentrated primarily in its Florida, Mississippi, Tennessee and Texas markets. A substantial portion of construction, land development and other land loans are secured by real estate in markets in which Trustmark is located. Accordingly, the ultimate collectability of a substantial portion of these loans and the recovery of a substantial portion of the carrying amount of other real estate owned, are susceptible to changes in market conditions in these areas.

Nonaccrual/Impaired LHFI, Excluding Covered Loans

At September 30, 2011 and December 31, 2010, the carrying amounts of nonaccrual LHFI, excluding covered loans, which are considered for impairment analysis, were $99.6 million and $142.9 million, respectively. 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. All of Trustmark's specifically evaluated impaired LHFI are collateral dependent loans. At September 30, 2011 and December 31, 2010, specifically evaluated impaired LHFI totaled $66.2 million and $97.6 million, respectively. In addition, these specifically evaluated impaired LHFI had a related allowance of $6.3 million and $8.3 million at the end of the respective periods. Specific charge-offs related to impaired LHFI totaled $18.4 million and $26.9 million while the provisions charged to net income for these loans totaled $6.2 million and $9.6 million for the first nine months of 2011 and 2010, respectively.

All nonaccrual LHFI over $500 thousand are individually assessed for impairment. Impaired LHFI have been determined to be collateral dependent and assessed using a fair value approach. Fair value estimates begin with appraised values based on the current market value/as is value of the property being appraised, normally from recently received and reviewed appraisals. If a current appraisal, or one with an inspection date within the past 12 months, using the necessary assumptions is not in the file, a new appraisal is ordered. 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. The Appraisal Review Department has the authority to make adjustments to appraisals based on sales contracts, comparable sales and other pertinent information if an appraisal does not incorporate the effect of these assumptions. Appraised values are adjusted down for costs associated with asset disposal. Once the current appraisal is received and the estimated net realizable value determined, the value used in the impairment assessment is updated and adjustments are made to reflect further impairments. At the time a 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. However, as subsequent events dictate and estimated net realizable values decline, required reserves are established.

At September 30, 2011 and December 31, 2010, nonaccrual LHFI, excluding covered loans, not specifically impaired and written down to fair value less cost to sell, totaled $33.4 million and $45.3 million, respectively. In addition, these nonaccrual LHFI had allocated allowance for loan losses of $2.7 million and $3.5 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired or nonaccrual loans for each of the periods ended September 30, 2011 and 2010.

At September 30, 2011 and December 31, 2010, LHFI, excluding covered loans, classified as troubled debt restructurings (TDRs) totaled $27.7 million and $19.2 million, respectively. For TDRs, Trustmark had a related loan loss allowance of $1.9 million at both September 30, 2011 and December 31, 2010. Specific charge-offs related to TDRs totaled $1.6 million for the nine months ended September 30, 2011 and 2010. LHFI that are TDRs are charged down to the most likely fair value estimate less a cost to sell estimate for collateral dependent loans, which would approximate net realizable value.

The following table illustrates the impact of modifications classified as TDRs as a whole at September 30, 2011 as well as those TDRs modified within 2011 for which there was a payment default during the year ($ in thousands):

	Nine Months Ended September 30, 2011		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Construction, land development and other land loans	14	$ 9,114	$ 8,447
Secured by 1-4 family residential properties	15	5,112	3,549
Secured by nonfarm, nonresidential properties	4	4,368	4,196
Commercial and industrial	2	11,998	11,531
Total	35	$ 30,592	$ 27,723

	Three Months Ended September 30, 2011		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Construction, land development and other land loans	1	$ 1,843	$ 1,843
Secured by 1-4 family residential properties	5	1,889	1,949
Total	6	$ 3,732	$ 3,792

	Nine Months Ended September 30, 2011	
Troubled Debt Restructurings that Subsequently Defaulted	Number of Contracts	Recorded Investment
Construction, land development and other land loans	2	$ 1,688
Secured by 1-4 family residential properties	2	1,485
Total	4	$ 3,173

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.

At September 30, 2011 and December 31, 2010, the following table details LHFI, excluding covered loans, classified as TDRs by loan type ($ in thousands):

	September 30, 2011		
	Accruing	Nonaccrual	Total
Construction, land development and other land loans	$244	$8,203	$8,447
Secured by 1-4 family residential properties	795	2,754	3,549
Secured by nonfarm, nonresidential properties	-	4,196	4,196
Commercial and industrial	-	11,531	11,531
Total Troubled Debt Restructurings by Type	$1,039	$26,684	$27,723

	December 31, 2010		
	Accruing	Nonaccrual	Total
Construction, land development and other land loans	$-	$3,181	$3,181
Secured by 1-4 family residential properties	318	1,488	1,806
Secured by nonfarm, nonresidential properties	-	2,232	2,232
Commercial and industrial	-	11,997	11,997
Total Troubled Debt Restructurings by Type	$318	$18,898	$19,216

At September 30, 2011 and December 31, 2010, the carrying amount of impaired loans, excluding covered loans, consisted of the following ($ in thousands):

	September 30, 2011					
	Unpaid Principal Balance	Total LHFI with No Related Allowance Recorded	Total LHFI with an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	$47,736	$ 9,284	$ 20,310	$29,594	$4,165	$43,712
Secured by 1-4 family residential properties	32,273	3,624	19,934	23,558	540	26,935
Secured by nonfarm, nonresidential properties	29,547	13,841	11,462	25,303	1,510	27,158
Other	5,625	486	4,335	4,821	1,008	5,488
Commercial and industrial loans	15,966	8,833	5,371	14,204	1,454	15,155
Consumer loans	1,184	-	907	907	10	1,510
Other loans	2,725	17	1,174	1,191	275	1,292
Total	$135,056	$ 36,085	$ 63,493	$99,578	$8,962	$121,250

	December 31, 2010					
	Unpaid Principal Balance	Total LHFI with No Related Allowance Recorded	Total LHFI with an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	$81,945	$ 33,201	$ 24,630	$57,831	$6,782	$69,817
Secured by 1-4 family residential properties	41,475	3,082	27,231	30,313	1,745	30,888
Secured by nonfarm, nonresidential properties	35,679	18,582	10,431	29,013	1,580	23,535
Other	7,009	5,042	1,112	6,154	95	4,126
Commercial and industrial loans	17,413	9,172	6,935	16,107	1,514	11,369
Consumer loans	2,420	-	2,112	2,112	23	1,544
Other loans	2,868	1,107	286	1,393	58	765
Total	$188,809	$ 70,186	$ 72,737	$142,923	$11,797	$142,044

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 indictors, 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 financial statement exceptions, total policy exceptions, collateral exceptions and violations of law as shown below:

- Financial Statement Exceptions – focuses on the officers' ongoing efforts to obtain, evaluate and/or document sufficient information to determine the quality and status of the credits. This area includes the quality and condition of the files in terms of content, completeness and organization. Included is an evaluation of the systems/procedures used to insure compliance with policy such as financial statements, review memos and loan agreement covenants.
- 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 exceptions to loan policy 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 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.
- Compliance with Law – focuses on underwriting, documentation, approval and reporting in compliance with banking laws and regulations. Primary emphasis is directed to 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 this time 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 but are sufficient to prevent a loss at this time. While these credits do not demonstrate any level of loss at this time, further deterioration would lead to a further downgrade.
- 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.
- 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 is 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.

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 the bank’s commercial loan portfolio concentrations both on the underlying credit quality of each individual loan portfolio as well as the adherence to bank 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.

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 (Loss) as loans classified as Losses are not carried on the bank’s books over quarter ends 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 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.

In addition to the ongoing internal risk rate monitoring described above, Trustmark conducts monthly credit quality reviews (CQR) as well as semi-annual analysis and stress testing on all residential real estate development credits and

non-owner occupied commercial real estate (CRE) credits of $1.0 million or more as described below:

- Trustmark's Credit Quality Review Committee meets monthly and performs the following functions: detailed review and evaluation of all loans of $100 thousand or more that are either delinquent thirty days or more or on nonaccrual, including determination of appropriate risk ratings, accrual status, and appropriate servicing officer; review of risk rate changes for relationships of $100 thousand or more; quarterly review of all nonaccruals less than $100 thousand to determine whether the credit should be charged off, returned to accrual, or remain in nonaccrual status; monthly/quarterly review of continuous action plans for all credits rated seven or worse for relationships of $100 thousand or more; monthly review of all commercial charge-offs of $25 thousand or more for the preceding month.

- Residential real estate developments - a development project analysis is performed on all projects regardless of size. Performance of the development is assessed through an evaluation of the number of lots remaining, the payout ratios, and the loan-to-value ratios. Results are stress tested as to absorption and price of lots. This information is reviewed by each senior credit officer for that market to determine the need for any risk rate or accrual status changes.

- Non-owner occupied commercial real estate – a cash flow analysis is performed on all projects with an outstanding balance of $1.0 million or more. In addition, credits are stress tested for vacancies and rate sensitivity. Confirmation is obtained that guarantor's financial statements are current, taxes have been paid, and that there are no other issues that need to be addressed. This information is reviewed by each senior credit officer for that market to determine the need for any risk rate or accrual status changes.

Consumer Credits

Loans 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 changes to underwriting procedures, credit policies, or changes in loan authority to Trustmark personnel.

Trustmark monitors the levels and severity of past due consumer loans on a daily basis through its collection activities. A detailed assessment of consumer loan 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 loan delinquency trends by comparing them to quarterly industry averages.

The allowance calculation methodology delineates the consumer loan portfolio into homogeneous pools of loans that contain similar structure, repayment, collateral and risk profile, which include residential mortgage, direct consumer loans, auto finance, credit cards, and overdrafts. For these pools, the historical loss experience is determined by calculating a 20-quarter rolling average and that loss factor is applied to each homogeneous pool to establish the quantitative aspect of the methodology. Where the loss experience does not fully cover the anticipated loss for a pool, an estimate is also applied to each homogeneous pool to establish the qualitative aspect of the methodology. The qualitative portion is the allocation of perceived risks across the loan portfolio to derive the potential losses that exist at the current point in time. This methodology utilizes five separate factors where each factor is made up of unique components that when weighted and combined produce an estimated level of reserve for each of the loan pools. The five factors include economic indicators, performance trends, management experience, lending policy measures, and 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 each market, so that the risk measurements for the qualitative factors are market-specific. The resulting estimated reserve factor is then applied to each pool.

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 five loan pools.

The table below illustrates the carrying amount of loans, excluding covered loans, by credit quality indicator at September 30, 2011 and December 31, 2010 ($ in thousands):

	September 30, 2011				
	Commercial Loans				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other land loans	$305,155	$ 28,014	$ 96,487	$69	$ 429,725
Secured by 1-4 family residential properties	118,644	147	16,795	-	135,586
Secured by nonfarm, nonresidential properties	1,291,830	13,123	131,656	51	1,436,660
Other	190,265	314	10,180	-	200,759
Commercial and industrial loans	999,567	24,922	55,456	1,405	1,081,350
Consumer loans	796	24	-	-	820
Other loans	572,818	5,994	2,469	553	581,834
	$3,479,075	$ 72,538	$ 313,043	$2,078	$ 3,866,734

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due Greater Than 90 days	Nonaccrual	Subtotal	Total LHFI, excluding covered loans
Loans secured by real estate:						
Construction, land development and other land loans	$49,668	$490	$ 176	$ 1,762	$52,096	$ 481,821
Secured by 1-4 family residential properties	1,551,510	11,346	1,742	17,182	1,581,780	1,717,366
Secured by nonfarm, nonresidential properties	876	37	-	-	913	1,437,573
Other	7,189	6	-	30	7,225	207,984
Commercial and industrial loans	2,327	52	-	24	2,403	1,083,753
Consumer loans	258,724	6,973	579	906	267,182	268,002
Other loans	5,348	31	-	-	5,379	587,213
	$1,875,642	$18,935	$ 2,497	$ 19,904	$1,916,978	$ 5,783,712

	December 31, 2010				
	Commercial Loans				
	Pass -			Doubtful -	

	Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other land loans	$347,287	$ 44,459	$ 134,503	$512	$ 526,761
Secured by 1-4 family residential properties	113,776	780	25,167	226	139,949
Secured by nonfarm, nonresidential properties	1,353,794	16,858	126,050	431	1,497,133
Other	216,022	180	7,418	-	223,620
Commercial and industrial loans	977,793	25,642	58,307	1,416	1,063,158
Consumer loans	524	-	-	-	524
Other loans	535,110	210	3,633	146	539,099
	$3,544,306	$ 88,129	$ 355,078	$2,731	$ 3,990,244

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due Greater Than 90 days	Nonaccrual	Subtotal	Total LHFI, excluding covered loans
Loans secured by real estate:						
Construction, land development and other land loans	$53,797	$223	$ -	$ 2,535	$56,555	$ 583,316
Secured by 1-4 family residential properties	1,559,611	10,302	1,278	20,916	1,592,107	1,732,056
Secured by nonfarm, nonresidential properties	975	-	-	-	975	1,498,108
Other	8,282	26	-	35	8,343	231,963
Commercial and industrial loans	5,075	97	-	39	5,211	1,068,369
Consumer loans	383,529	13,741	2,260	2,111	401,641	402,165
Other loans	5,166	-	-	-	5,166	544,265
	$2,016,435	$24,389	$ 3,538	$ 25,636	$2,069,998	$ 6,060,242

Past Due LHFI, Excluding Covered Loans

LHFI past due 90 days or more totaled $36.1 million and $19.4 million at September 30, 2011 and December 31, 2010, respectively. Included in these amounts are $33.0 million and $15.8 million, respectively, of serviced loans eligible for repurchase, which are fully guaranteed by GNMA. GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto

the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings. During December of 2010, Trustmark purchased approximately $53.9 million of GNMA serviced loans, which were subsequently sold to a third party. Trustmark will retain the servicing for these loans, which are fully guaranteed by FHA/VA. Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first nine months of 2011.

The following table provides an aging analysis of past due and nonaccrual LHFI, excluding covered loans, by class at September 30, 2011 and December 31, 2010 ($ in thousands):

	September 30, 2011					
	30-89 Days	Past Due Greater than 90 Days (1)	Total	Nonaccrual	Current Loans	Total LHFI, excluding covered loans
Loans secured by real estate:						
Construction, land development and other land loans	$4,653	$844	$5,497	$29,594	$446,730	$ 481,821
Secured by 1-4 family residential properties	12,798	1,743	14,541	23,558	1,679,267	1,717,366
Secured by nonfarm, nonresidential properties	19,863	-	19,863	25,303	1,392,407	1,437,573
Other	63	-	63	4,821	203,100	207,984
Commercial and industrial loans	8,781	-	8,781	14,204	1,060,768	1,083,753
Consumer loans	6,973	579	7,552	907	259,543	268,002
Other loans	785	-	785	1,191	585,237	587,213
Total past due LHFI	$53,916	$3,166	$57,082	$99,578	$5,627,052	$ 5,783,712

(1) - Past due greater than 90 days but still accruing interest.

	December 31, 2010					
	30-89 Days	Past Due Greater than 90 Days (1)	Total	Nonaccrual	Current Loans	Total LHFI, excluding covered loans
Loans secured by real estate:						
Construction, land development and other land loans	$1,651	$-	$1,651	$57,831	$523,834	$ 583,316
Secured by 1-4 family residential properties	11,654	1,278	12,932	30,313	1,688,811	1,732,056
Secured by nonfarm, nonresidential properties	9,149	31	9,180	29,013	1,459,915	1,498,108
Other	441	-	441	6,154	225,368	231,963
Commercial and industrial loans	4,178	39	4,217	16,107	1,048,045	1,068,369
Consumer loans	13,741	2,260	16,001	2,112	384,052	402,165

Other loans	67	-	67	1,393	542,805	544,265
Total past due LHFI	$40,881	$3,608	$44,489	$142,923	$5,872,830	$ 6,060,242

(1) - Past due greater than 90 days but still accruing interest.

Allowance for Loan Losses

During 2009, Trustmark refined its allowance for loan loss methodology for commercial loans based upon regulatory guidance from its primary regulator. This refined methodology delineated the commercial purpose and commercial construction loan portfolios into 13 separate loan types (or pools), which had similar characteristics, such as, repayment, collateral and risk profiles. During the first quarter of 2010, Trustmark refined the allowance for loan loss methodology for commercial loans by segregating the pools into Trustmark’s four key market regions, Florida, Mississippi, Tennessee and Texas, to take into consideration the uniqueness of each market while continuing to utilize a 10-point risk rating system for each pool. As a result, risk rate factors for commercial loan types increased to 360 while having an immaterial impact to the overall balance of the allowance for loan losses. The nine separate pools are segmented below:

Commercial Purpose Loans

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

Commercial Construction Loans

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

The quantitative factors utilized in determining the required reserve are intended to reflect a twelve-quarter rolling average, one quarter in arrears, by loan type within each key market region, unless subsequent market factors suggests that a different method is called for. Prior to converting to a twelve-quarter rolling average at September 30, 2011, the quantitative factors reflected a three-year rolling average for its commercial loan book of business. Because of the severe economic environment at the time, starting in 2009, Management determined to alter the methodology of calculating historical loss to use data from the single year for 2008 as the historical loss factor for 2009, and use the average historical loss for 2008 and 2009 for 2010.

The qualitative factors utilize eight separate factors made up of unique characteristics that, when weighted and combined, produce an estimated level of reserve for each loan type. The qualitative factors considered are 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

The measure for 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.

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

	Nine Months Ended September 30,	
	2011	2010
Balance at January 1,	$93,510	$103,662
Loans charged-off	(37,312)	(56,014)
Recoveries	9,634	9,058

Net charge-offs	(27,678)	(46,956)
Provision for loan losses	23,631	37,752
Balance at September 30,	$89,463	$94,458

The following tables detail the balance in the allowance for loan losses by portfolio segment at September 30, 2011 and 2010, respectively ($ in thousands):

	Allowance for Loan Losses				
	Balance January 1, 2011	Charge-offs	Recoveries	Provision for Loan Losses	Balance September 30, 2011
Loans secured by real estate:					
Construction, land development and other land loans	$35,562	$(14,375)	$-	$8,353	$29,540
Secured by 1-4 family residential properties	13,051	(7,461)	410	5,538	11,538
Secured by nonfarm, nonresidential properties	20,980	(3,124)	-	4,882	22,738
Other	1,582	(577)	-	1,969	2,974
Commercial and industrial loans	14,775	(3,811)	2,259	2,529	15,752
Consumer loans	5,400	(4,410)	4,475	(1,474)	3,991
Other loans	2,160	(3,554)	2,490	1,834	2,930
Total	$93,510	$(37,312)	$9,634	$23,631	$89,463

	Allowance for Loan Losses Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$4,165	$25,375	$29,540
Secured by 1-4 family residential properties	540	10,998	11,538
Secured by nonfarm, nonresidential properties	1,510	21,228	22,738
Other	1,008	1,966	2,974
Commercial and industrial loans	1,454	14,298	15,752
Consumer loans	10	3,981	3,991
Other loans	275	2,655	2,930
Total	$8,962	$80,501	$89,463

	Allowance for Loan Losses				
	Balance January 1, 2010	Charge-offs	Recoveries	Provision for Loan Losses	Balance September 30, 2010
Loans secured by real estate:					
Construction, land development and other land loans	$43,552	$(25,462)	$-	$15,915	$34,005
Secured by 1-4 family residential properties	13,151	(8,569)	372	6,941	11,895
Secured by nonfarm, nonresidential properties	20,110	(5,183)	-	6,345	21,272
Other	1,631	(576)	-	480	1,535
Commercial and industrial loans	16,275	(2,515)	1,617	2,120	17,497
Consumer loans	7,246	(8,175)	4,698	2,137	5,906
Other loans	1,697	(5,534)	2,371	3,814	2,348
Total	$103,662	$(56,014)	$9,058	$37,752	$94,458

	Allowance for Loan Losses Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$4,706	$29,299	$34,005
Secured by 1-4 family residential properties	755	11,140	11,895
Secured by nonfarm, nonresidential properties	1,398	19,874	21,272
Other	203	1,332	1,535
Commercial and industrial loans	4,528	12,969	17,497
Consumer loans	17	5,889	5,906
Other loans	38	2,310	2,348
Total	$11,645	$82,813	$94,458

Note 5 – Covered Loans, Covered Other Real Estate and FDIC Indemnification Asset

Covered Loans

On April 15, 2011, TNB entered into a purchase and assumption agreement with the FDIC in which TNB agreed to assume all of the deposits and essentially all of the assets of Heritage. Loans comprise the majority of the assets acquired and all but $9.6 million are subject to loss share agreements with the FDIC whereby TNB is indemnified against a portion of the losses on covered loans and covered other real estate. The loans acquired from Heritage that are covered by a loss share agreement are presented as covered loans in the accompanying consolidated financial statements.

Trustmark will account for loans under FASB ASC Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” when acquired loans are deemed to be impaired. An acquired loan is considered impaired when there is evidence of credit deterioration since the origination and it is probable at the date of acquisition that Trustmark would be unable to collect all contractually required payments. Acquired loans accounted for under FASB ASC Topic 310-30 will be referred to in this section as “acquired impaired loans.” Revolving credit agreements such as home equity lines are excluded from acquired impaired loan accounting requirements. Trustmark acquired $3.9

million of revolving credit agreements, at fair value, consisting mainly of home equity loans and commercial asset-based lines of credit, where the borrower had revolving privileges on the acquisition date. As such, Trustmark has accounted for such revolving covered loans in accordance with accounting requirements for purchased nonimpaired loans.

The acquired covered loans were recorded at their estimated fair value at the time of acquisition. 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. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date.

For acquired impaired loans, Trustmark (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the covered acquired impaired loan portfolio and such amount is subject to change over time based on the performance of such covered loans. The carrying value of covered acquired impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

The excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the "accretable yield" 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. Increases in expected cash flows over those originally estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those originally estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses.

Following acquisition, Trustmark aggregated certain loans into pools of loans with common credit risk characteristics such as loan type and risk rating. To establish accounting pools of loans purchased, loans were first categorized by similar purpose, similar collateral, and by their operational servicing center. As all loans were in a similar geographic region, no geographical information was considered for pooling. Within each category, loans were further segmented by ranges of risk determinants observed at the time of acquisition. For commercial loans, the primary risk determinant was the risk rating as assigned by Trustmark's internal credit officers. For consumer loans, the risk determinants included delinquency, FICO and loan to value. The statistical comparison of the pools reflected that each pool was comprised of loans generally of statistically similar characteristics, including loan type, loan risk and weighted average life. Each pool was then reviewed for statistical similarity of the pool constituents, including standard deviation of purchase price, weighted average life and concentration of largest loans. Loan pools were initially booked at the aggregate fair value of the loan pool constituents, based on the present value of Trustmark's expected cash flows from the loans. Certain purchased loans were not pooled and will be accounted for individually. Such loans consist of loans subject to accounting for purchased nonimpaired loans and loans that require more specific estimates of actual timing and amounts of cash flows due to the significant impairment of the borrower's ability to pay.

Under acquired impaired loan accounting, acquired loans are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans as long as the estimated cash flows are received as expected. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income may be recognized on a cash basis or as a reduction of the principal amount outstanding.

The following table presents covered loans acquired as of the date of the Heritage acquisition and activity within covered loans during 2011 ($ in thousands):

At acquisition date:	
Contractually required principal and interest	$145,864
Nonaccretable difference	(38,345)
Cash flows expected to be collected	107,519
Accretable yield	(13,579)
Other revolving loans	3,830
Fair value at acquisition date	$97,770
Covered loans acquired at fair value	$97,770
Accretion to interest income	2,441
Payments received	(21,147)
Carrying value at September 30, 2011	$79,064

At September 30, 2011, covered loans, which are substantially located in Mississippi, consisted of the following ($ in thousands):

Loans secured by real estate:	
Construction, land development and other land loans	$4,024
Secured by 1-4 family residential properties	32,735
Secured by nonfarm, nonresidential properties	33,601
Other	5,294
Commercial and industrial loans	1,772
Consumer loans	158
Other loans	1,480
Covered loans	$79,064

The following table presents changes in the accretable yield on covered loans acquired in the Heritage acquisition during 2011 ($ in thousands):

Accretable yield acquired	$(13,579)
Accretion to interest income	2,441
Carrying value at September 30, 2011	$(11,138)

Covered Other Real Estate

All other real estate acquired in a FDIC-assisted acquisition, such as Heritage, that is subject to a FDIC loss-share agreement is referred to as covered other real estate and reported separately in Trustmark's consolidated balance sheets. Covered other real estate is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered other real estate at the collateral's net realizable value, less estimated selling costs.

Covered 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. Any subsequent valuation adjustments due to declines in fair value will be charged to noninterest expense, and will be mostly offset by noninterest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to noninterest expense with a corresponding charge to

noninterest income for the portion of the recovery that is due to the FDIC.

As of the date of the Heritage acquisition, Trustmark acquired $7.5 million in covered other real estate. At September 30, 2011, covered other real estate consisted of the following types of properties ($ in thousands):

Construction, land development and other land properties	$ 1,624
1-4 family residential properties	934
Nonfarm, nonresidential properties	4,523
Other real estate properties	116
Total covered other real estate	$ 7,197

FDIC Indemnification Asset

Trustmark has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC Topic 805, "Business Combinations." The FDIC indemnification asset was initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value and the undiscounted cash flows Trustmark expects to collect from the FDIC will be accreted into noninterest income over the life of the FDIC indemnification asset.

The FDIC indemnification asset will be reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of covered loans and covered other real estate. These adjustments are measured on the same basis as the related covered loans and covered other real estate. Any increases in cash flow of the covered loans and covered other real estate over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered loans and covered other real estate under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset will be recorded as adjustments to noninterest income.

The following table presents the FDIC indemnification asset acquired as of the date of the Heritage acquisition and activity within the FDIC indemnification asset during 2011 ($ in thousands):

Indemnification asset at acquisition date	$ 33,333
Accretion	103
Carrying value at September 30, 2011	$ 33,436

Pursuant to the clawback provisions of the Heritage loss share agreement, Trustmark may be required to reimburse the FDIC should actual losses be less than certain thresholds established in the agreement. To the extent that actual losses on covered loans and covered other real estate are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreement will increase. To the extent that actual losses on covered loans and covered other real estate are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreement will decrease. At September 30, 2011, Trustmark had no clawback payable to the FDIC.

Note 6 – Mortgage Banking

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

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

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and exchange-traded option contracts, to achieve a fair value return that offsets the changes in fair value of MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. Changes in the fair value of these exchange-traded derivative instruments, including administrative costs, are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of MSR. The MSR fair value represents the present value of future cash flows, which among other things includes decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the total hedge cost to the changes in the fair value of the MSR asset attributable to interest rate changes. The impact of this strategy resulted in a net positive ineffectiveness of $2.8 million and $2.9 million for the three months ended September 30, 2011 and 2010, respectively, as well as a net positive ineffectiveness of $4.8 million and $7.6 million experienced for the nine months ended September 30, 2011 and 2010, respectively.

See the section captioned “Noninterest Income” in Management’s Discussion and Analysis for further analysis of mortgage banking revenues, which includes the table for net hedge ineffectiveness.

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

	Nine Months Ended September 30,	
	2011	2010
Balance at beginning of period	$51,151	$50,513
Origination of servicing assets	9,581	12,752
Disposals of mortgage loans sold serviced released	-	(1,681)
Change in fair value:		
Due to market changes	(12,288)	(14,813)
Due to runoff	(4,785)	(4,799)
Balance at end of period	$43,659	$41,972

During the first quarter of 2010, Trustmark completed the final settlement of the sale of approximately $920.9 million in mortgages serviced for others, which reduced Trustmark’s MSR by approximately $8.5 million. In addition, during December of 2010, Trustmark purchased approximately $53.9 million of GNMA serviced loans, which were subsequently sold to a third party. Trustmark will retain the servicing for these loans, which are fully guaranteed by FHA/VA. The effect of these transactions did not have a material impact on Trustmark's results of operations.

Trustmark is subject to losses in its loan servicing portfolio due to loan foreclosures. For loans sold without recourse, 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 loans sold were 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 such as appraisers. The total mortgage loan servicing putback expenses incurred by Trustmark during the first nine months of 2011 were $2.5 million compared to $1.1 million during the same time period in 2010. At September 30, 2011 and December 31, 2010, accrued mortgage loan servicing putback expenses were $2.0 million and $900 thousand, 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. Based on Trustmark’s experience to date, and its confidence in its underwriting practices on loans sold to others, Management does not believe that a material loss related to these transactions is either probable or reasonably estimated.

Note 7 –Other Real Estate, excluding Covered Other Real Estate

Other real estate, excluding covered other real estate owned, is recorded at the lower of cost or estimated fair value less the estimated cost of disposition. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan losses. At September 30, 2011, Trustmark's geographic loan distribution was concentrated primarily in its Florida, Mississippi, Tennessee and Texas markets. The ultimate recovery of a substantial portion of the carrying amount of noncovered other real estate owned is susceptible to changes in market conditions in these areas.

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

	Nine Months Ended September 30,	
	2011	2010
Balance at beginning of period	$86,704	$90,095
Additions	48,975	51,213
Disposals	(35,234)	(41,322)
Writedowns	(10,848)	(15,264)
Balance at end of period	$89,597	$84,722
Gain (Loss), net on the sale of noncovered other real estate included in other expenses	$474	$(401)

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

	September 30, 2011	December 31, 2010
Construction, land development and other land loans	$63,756	$61,963
1-4 family residential properties	12,716	13,509
Nonfarm, nonresidential properties	12,123	9,820
Other real estate loans	1,002	1,412
Total other real estate, excluding covered other real estate	$89,597	$86,704

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

	September 30, 2011	December 31, 2010
Florida	$29,949	$32,370
Mississippi (1)	21,027	24,181
Tennessee (2)	17,940	16,407
Texas	20,681	13,746
Total other real estate, excluding covered other real estate	$89,597	$86,704

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

Note 8 – Deposits

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

	September 30, 2011	December 31, 2010
Noninterest-bearing demand deposits	$1,871,040	$1,636,625
Interest-bearing demand	1,505,851	1,474,045

Savings	2,111,556	1,809,116
Time	2,081,277	2,124,781
Total	$7,569,724	$7,044,567

Note 9 – Defined Benefit and Other Postretirement Benefits

Capital Accumulation Plan

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net periodic benefit cost				
Service cost	$124	$138	$398	$412
Interest cost	1,115	1,194	3,345	3,583
Expected return on plan assets	(1,470)	(1,481)	(4,412)	(4,444)
Recognized net actuarial loss	1,026	849	3,100	2,548
Net periodic benefit cost	$795	$700	$2,431	$2,099

The acceptable range of contributions to the plan is determined each year by the plan's actuary. Trustmark's policy is to fund amounts allowable for federal income tax purposes. The actual amount of the contribution is determined based on the plan's funded status and return on plan assets as of the measurement date, which is December 31. For 2011, Trustmark’s minimum required contribution is expected to be zero. During 2010, Trustmark made a voluntary contribution of $1.9 million to improve the funded status of the 2009 plan year. There was not a voluntary contribution related to the 2010 plan year.

Supplemental Retirement Plan

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net periodic benefit cost				
Service cost	$147	$190	$441	$567
Interest cost	569	561	1,707	1,682
Amortization of prior service cost	59	38	177	114
Recognized net actuarial loss	124	88	372	266

Net periodic benefit cost	$899	$877	$2,697	$2,629

Note 10 – Stock and Incentive Compensation Plans

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

Stock Option Grants

Stock option awards under the 2005 Plan are granted with an exercise price equal to the market price of Trustmark's stock on the date of grant. Stock options granted under the 2005 Plan vest 20% per year and have a contractual term of seven years. Stock option awards, which were granted under the 1997 Plan, had an exercise price equal to the market price of Trustmark's stock on the date of grant, vested equally over four years with a contractual ten-year term. During the second quarter of 2011, compensation expense related to stock options had been fully recognized. Compensation expense for stock options granted under these plans was estimated using the fair value of each option granted using the Black-Scholes option-pricing model and was recognized on the straight-line method over the requisite service period. 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) or return on average equity (ROAE) and total shareholder return (TSR) compared to a defined peer group. Awards based on TSR are valued utilizing a Monte Carlo simulation to estimate fair value of the awards at the grant date, while ROATE and ROAE awards are valued utilizing the fair value of Trustmark's stock at the grant date based on the estimated number of shares expected to vest. The restriction period for performance awards covers a three-year vesting period. These awards are recognized on the straight-line method over the requisite service period. These awards provide for excess shares, if performance measures exceed 100%. Any excess shares granted are restricted for an additional three-year vesting period. The restricted share agreement provides for voting rights and dividend privileges.

Time-Vested Awards

Trustmark's time-vested awards are granted to Trustmark's executive and senior management team in both employee recruitment and retention. These awards are also granted to Trustmark's Board of Directors and are restricted for thirty-six months from the award dates. Time-vested awards are valued utilizing the fair value of Trustmark's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period.

Performance-Based Restricted Stock Unit Award

During 2009, Trustmark's previous Chairman and CEO was granted a cash-settled performance-based restricted stock unit award (the RSU award), with each unit having the value of one share of Trustmark's common stock. The performance period covered a two-year period. This award was granted in connection with an employment agreement dated November 20, 2008, that provides for in lieu of receiving an equity compensation award in 2010 or 2011, the 2009 equity compensation award to be twice the amount of a normal award, with one-half of the award being performance-based and one-half service-based. The RSU award was granted outside of the 2005 Plan in lieu of granting shares of performance-based restricted stock that would exceed the annual limit permitted to be granted under the 2005 Plan, in order to satisfy the equity compensation provisions of the employment agreement. This award provided for excess shares, if performance goals of ROATE and TSR exceeded 100%. Both the performance awards and excess shares vested during the second quarter of 2011. Compensation expense for the RSU award was based on the approximate fair value of Trustmark's stock at the end of each of the reporting periods and was finalized on the vesting date.

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

	Three Months ended September 30, 2011		
	Stock Options	Performance Awards	Time-Vested Awards
Outstanding/Nonvested shares or units, beginning of period	1,208,500	180,322	365,275
Granted	-	-	4,318
Expired	(800)	-	-
Outstanding/Nonvested shares or units, end of period	1,207,700	180,322	369,593

	Nine Months ended September 30, 2011			
	Stock Options	Performance Awards	Time-Vested Awards	RSU Award (Cash-Settled)
Outstanding/Nonvested shares or units, beginning of period	1,311,925	210,797	343,469	23,123
Granted	-	53,863	73,057	-
Granted - excess shares	-	-	84,121	23,123
Exercised or released from restriction	(69,525)	(84,338)	(126,596)	(46,246)
Expired	(33,400)	-	-	-
Forfeited	(1,300)	-	(4,458)	-
Outstanding/Nonvested shares or units, end of period	1,207,700	180,322	369,593	-

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Compensation expense - Stock and Incentive plans:				
Stock option-based awards	$ -	$ 78	$ 100	$ 355
Performance awards	214	251	655	752
Time-vested awards	671	838	2,172	2,580
RSU award (share price: $23.65-2011, $20.82-2010)	-	166	184	490
Total	$ 885	$ 1,333	$ 3,111	$ 4,177

Note 11 – Contingencies

Lending Related

Letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third party. Trustmark issues financial and performance standby letters of credit in the normal course of business in order to fulfill the financing needs of its customers. A financial standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral, which are followed in the lending process. At September 30, 2011 and 2010, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was $169.8 million and $186.0 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 September 30, 2011, the fair value of collateral held was $55.3 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 the Company as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount of fees received by each defendant from entities controlled by R. Allen Stanford (collectively, the "Stanford Financial Group") and (ii) damages allegedly attributable to alleged conspiracies by one or more of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud arising from the facts set forth in pending federal criminal indictments and civil complaints against Mr. Stanford, other individuals and the Stanford Financial Group. Plaintiffs have demanded a jury trial. 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, which remain pending, although the plaintiffs have yet to file any responsive briefing. Instead, the plaintiffs have sought to stay the lawsuit pending the conclusion of the federal criminal trial of R. Allen Stanford in Houston, Texas. The court has not ruled on the plaintiff's motion to stay at this time.

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 TNB 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 remains pending.

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 reported in the press and disclosed by Trustmark.

Trustmark and its subsidiaries are also parties to other lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to the lending, collection, servicing, investment, trust and other business activities, and some of the lawsuits allege substantial claims for damages. The cases are being vigorously contested. In the regular course of business, Management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever Management believes that such losses are probable and can be reasonably estimated.

At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that (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 material adverse outcome in any such case is not reasonably possible.

Note 12 – Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted-average shares of common stock outstanding, adjusted for the effect of potentially dilutive stock awards outstanding during the period. The following table reflects weighted-average shares used to calculate basic and diluted EPS for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic shares	64,119	63,886	64,048	63,834
Dilutive shares	191	181	203	182
Diluted shares	64,310	64,067	64,251	64,016

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted-average antidilutive shares	1,212	1,327	1,225	1,263

Note 13 – Statements of Cash Flows

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

	Nine Months Ended September 30,	
	2011	2010
Income taxes paid	$22,374	$39,291
Interest expense paid on deposits and borrowings	33,907	46,192
Noncash transfers from loans to foreclosed properties	48,975	51,213
Transfer of long-term FHLB advance to short-term	1,900	75,000
Assets acquired in business combination	207,243	-
Liabilities assumed in business combination	228,236	-

Note 14 – Shareholders' Equity

Trustmark and TNB are subject to minimum capital requirements, which are administered by various federal regulatory agencies. These capital requirements, as defined by federal guidelines, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB. As of September 30, 2011, Trustmark and TNB have exceeded all of the minimum capital standards for the parent company and its primary banking subsidiary as established by regulatory requirements. In addition, TNB has met applicable regulatory guidelines to be considered well-capitalized at September 30, 2011. To be categorized in this manner, TNB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the accompanying table. There are no significant conditions or events that have occurred since September 30, 2011, which Management believes have affected TNB's present classification.

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

	Actual Regulatory Capital		Minimum Regulatory Capital Required		Minimum Regulatory Provision to be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2011:						
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	$ 1,094,402	16.78 %	$ 521,797	8.00 %	n/a	n/a
Trustmark National Bank	1,054,986	16.38 %	515,396	8.00 %	$ 644,245	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$ 962,942	14.76 %	$ 260,899	4.00 %	n/a	n/a
Trustmark National Bank	926,473	14.38 %	257,698	4.00 %	$ 386,547	6.00 %
Tier 1 Capital (to Average Assets)						
Trustmark Corporation	$ 962,942	10.38 %	$ 278,202	3.00 %	n/a	n/a

Trustmark National Bank		926,473	10.12	%		274,523	3.00	%	$	457,539	5.00	%
At December 31, 2010:												
Total Capital (to Risk Weighted Assets)												
Trustmark Corporation	$	1,051,933	15.77	%	$	533,774	8.00	%		n/a	n/a	
Trustmark National Bank		1,014,219	15.40	%		526,894	8.00	%	$	658,617	10.00	%
Tier 1 Capital (to Risk Weighted Assets)												
Trustmark Corporation	$	918,600	13.77	%	$	266,887	4.00	%		n/a	n/a	
Trustmark National Bank		883,549	13.42	%		263,447	4.00	%	$	395,170	6.00	%
Tier 1 Capital (to Average Assets)												
Trustmark Corporation	$	918,600	10.14	%	$	271,867	3.00	%		n/a	n/a	
Trustmark National Bank		883,549	9.89	%		267,967	3.00	%	$	446,612	5.00	%

Accumulated Other Comprehensive Income (Loss)

The following table presents the components of accumulated other comprehensive income (loss) and the related tax effects allocated to each component for the periods ended September 30, 2011 and 2010 ($ in thousands):

	Before-Tax Amount	Tax Effect	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2011	$(18,469)	$7,043	$ (11,426)
Unrealized holding gains on AFS arising during period	46,696	(17,861)	28,835
Adjustment for net gains realized in net income	(91)	35	(56)
Pension and other postretirement benefit plans	3,649	(1,396)	2,253
Balance, September 30, 2011	$31,785	$(12,179)	$ 19,606
Balance, January 1, 2010	$(2,596)	$972	$ (1,624)
Unrealized holding gains on AFS arising during period	17,711	(6,774)	10,937
Adjustment for net gains realized in net income	(2,228)	852	(1,376)
Pension and other postretirement benefit plans	2,771	(1,060)	1,711
Balance, September 30, 2010	$15,658	$(6,010)	$ 9,648

Note 15 – Fair Value

Fair Value Measurements

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

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety is

classified is based on the lowest level input that is significant to the fair value measurement in its entirety. Trustmark's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Financial Instruments Measured at Fair Value

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

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

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

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

Trustmark obtains the fair value of interest rate swaps from a third-party pricing service that uses an industry standard discounted cash flow methodology. In addition, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its interest rate swap contracts for the effect of nonperformance risk, Trustmark has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

Trustmark has determined that the majority of the inputs used to value its interest rate swaps offered to qualified commercial borrowers fall within Level 2 of the fair value hierarchy, while the credit valuation adjustments associated with these derivatives utilize Level 3 inputs, such as estimates of current credit spreads. Trustmark has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate swaps and has determined that the credit valuation adjustment is not significant to the overall valuation of these derivatives. As a result, Trustmark classifies its interest rate swap valuations in Level 2 of the fair value hierarchy.

Trustmark also utilizes derivative instruments such as Treasury note futures contracts and exchange-traded option contracts to achieve a fair value return that offsets the changes in fair value of MSR attributable to interest rates. These derivative instruments are exchange-traded and provide inputs, which allow them to be classified within Level 1 of the fair value hierarchy. In addition, Trustmark utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area which lack observable inputs for valuation purposes resulting in their inclusion in Level 3 of the fair value hierarchy.

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

Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value ($ in thousands):

	September 30, 2011			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	$61,875	$-	$61,875	$-
Obligations of states and political subdivisions	207,781	-	207,781	-
Mortgage-backed securities	2,207,249	-	2,207,249	-
Securities available for sale	2,476,905	-	2,476,905	-
Loans held for sale	210,269	-	210,269	-
Mortgage servicing rights	43,659	-	-	43,659
Other assets - derivatives	3,061	459	1,073	1,529
Other liabilities - derivatives	5,471	658	4,813	-

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	$122,035	$-	$122,035	$-
Obligations of states and political subdivisions	159,637	-	159,637	-
Mortgage-backed securities	1,895,577	-	1,895,577	-
Securities available for sale	2,177,249	-	2,177,249	-
Loans held for sale	153,044	-	153,044	-
Mortgage servicing rights	51,151	-		