TRUSTMARK CORP
Form 10-Q
May 08, 2014

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 March 31, 2014

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 þ 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 þ 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 þ	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 þ

As of April 30, 2014, there were 67,439,562 shares outstanding of the registrant’s common stock (no par value).

Forward-Looking Statements

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

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

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) March 31, 2014		December 31, 2013	
Assets				
Cash and due from banks (noninterest-bearing)	$	423,819	$	345,761
Federal funds sold and securities purchased under reverse repurchase agreements		-		7,253
Securities available for sale (at fair value)		2,382,441		2,194,154
Securities held to maturity (fair value: $1,154,606-2014; $1,150,833-2013)		1,155,569		1,168,728
Loans held for sale (LHFS)		120,446		149,169
Loans held for investment (LHFI)		5,923,766		5,798,881
Less allowance for loan losses, LHFI		67,518		66,448
Net LHFI		5,856,248		5,732,433
Acquired loans:				
Noncovered loans		713,647		769,990
Covered loans		32,670		34,216
Less allowance for loan losses, acquired loans		10,540		9,636
Net acquired loans		735,777		794,570
Net LHFI and acquired loans		6,592,025		6,527,003
Premises and equipment, net		203,771		207,283
Mortgage servicing rights		67,614		67,834
Goodwill		365,500		372,851
Identifiable intangible assets		39,697		41,990
Other real estate, excluding covered other real estate		111,536		106,539
Covered other real estate		4,759		5,108
FDIC indemnification asset		13,487		14,347
Other assets		576,390		582,363
Total Assets	$	12,057,054	$	11,790,383
Liabilities				
Deposits:				
Noninterest-bearing	$	2,879,341	$	2,663,503
Interest-bearing		7,242,778		7,196,399
Total deposits		10,122,119		9,859,902
		259,341		251,587

Federal funds purchased and securities sold under repurchase agreements						
Short-term borrowings		59,671			66,385	
Long-term FHLB advances		8,341			8,458	
Subordinated notes		49,912			49,904	
Junior subordinated debt securities		61,856			61,856	
Other liabilities		121,919			137,338	
Total Liabilities		10,683,159			10,435,430	
Shareholders' Equity						
Common stock, no par value:						
Authorized: 250,000,000 shares						
Issued and outstanding: 67,439,562 shares - 2014; 67,372,980 shares - 2013		14,051			14,038	
Capital surplus		352,402			349,680	
Retained earnings		1,045,939			1,034,966	
Accumulated other comprehensive loss, net of tax		(38,497	)		(43,731	)
Total Shareholders' Equity		1,373,895			1,354,953	
Total Liabilities and Shareholders' Equity	$	12,057,054		$	11,790,383	

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Interest Income		
Interest and fees on LHFI & LHFS	$63,074	$64,463
Interest and fees on acquired loans	16,786	12,782
Interest on securities:		
Taxable	19,220	16,539
Tax exempt	1,248	1,312
Interest on federal funds sold and securities purchased under reverse repurchase agreements	5	4
Other interest income	375	355
Total Interest Income	100,708	95,455
Interest Expense		
Interest on deposits	4,365	4,909
Interest on federal funds purchased and securities sold under repurchase agreements	76	81
Other interest expense	1,363	1,490
Total Interest Expense	5,804	6,480
Net Interest Income	94,904	88,975
Provision for loan losses, LHFI	(805)	(2,968)
Provision for loan losses, acquired loans	63	130
Net Interest Income After Provision for Loan Losses	95,646	91,813
Noninterest Income		
Service charges on deposit accounts	11,568	11,681
Bank card and other fees	9,081	7,945
Mortgage banking, net	6,829	11,583
Insurance commissions	8,097	7,242
Wealth management	8,135	6,875
Other, net	(21)	(1,191)
Securities gains, net	389	204
Total Noninterest Income	44,078	44,339
Noninterest Expense		
Salaries and employee benefits	56,726	53,592
Services and fees	13,165	13,032
Net occupancy - premises	6,606	5,955
Equipment expense	6,138	5,674
ORE/Foreclosure expense	3,315	3,820
FDIC assessment expense	2,416	2,021
Other expense	13,252	18,051
Total Noninterest Expense	101,618	102,145
Income Before Income Taxes	38,106	34,007
Income taxes	9,103	9,141
Net Income	$29,003	$24,866
Earnings Per Share		
Basic	$0.43	$0.38
Diluted	$0.43	$0.38

Dividends Per Share	$0.23	$0.23

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income per consolidated statements of income	$29,003	$24,866
Other comprehensive income, net of tax:		
Unrealized (losses) gains on available for sale securities and transferred securities:		
Unrealized holding gains arising during the period	4,229	1,380
Less: adjustment for net gains realized in net income	(240)	(126)
Change in net unrealized holding loss on securities transferred to held to maturity	823	-
Pension and other postretirement benefit plans:		
Net change in prior service costs	39	39
Recognized net loss due to settlement	232	-
Recognized net actuarial loss	559	1,021
Derivatives:		
Change in the accumulated gain on effective cash flow hedge derivatives	(408)	-
Other comprehensive income, net of tax	5,234	2,314
Comprehensive income	$34,237	$27,180

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

	2014	2013
Balance, January 1,	$1,354,953	$1,287,369
Net income per consolidated statements of income	29,003	24,866
Other comprehensive income	5,234	2,314
Common stock dividends paid	(15,597)	(15,560)
Common stock issued-net, long-term incentive plans:		
Stock options	-	109
Restricted stock	(792)	(938)
Excess tax (expense) benefit from stock-based compensation arrangements	(97)	269
Compensation expense, long-term incentive plans	1,191	1,022
Common stock issued, business combinations	-	53,495
Balance, March 31,	$1,373,895	$1,352,946

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Operating Activities		
Net income	$29,003	$24,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, net	(742)	(2,838)
Depreciation and amortization	8,756	8,380
Net amortization of securities	1,958	1,868
Securities gains, net	(389)	(204)
Gains on sales of loans, net	(1,839)	(10,165)
Deferred income tax provision	2,400	2,157
Proceeds from sales of loans held for sale	186,788	402,159
Purchases and originations of loans held for sale	(162,937)	(382,425)
Originations and sales of mortgage servicing rights, net	(2,315)	(5,521)
Increase in bank-owned life insurance	(1,166)	(158)
Net decrease (increase) in other assets	7,891	(44,916)
Net decrease in other liabilities	(14,172)	(5,740)
Other operating activities, net	4,159	1,903
Net cash provided by (used in) operating activities	57,395	(10,634)
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	17,411	3,580
Proceeds from calls and maturities of securities available for sale	80,309	272,858
Proceeds from sales of securities available for sale	26,274	38,742
Purchases of securities held to maturity	(2,968)	(35,045)
Purchases of securities available for sale	(289,931)	(667,299)
Net decrease in federal funds sold and securities purchased under reverse repurchase agreements	7,253	1,120
Net (increase) decrease in loans	(78,370)	145,517
Purchases of premises and equipment	(2,337)	(2,228)
Proceeds from sales of premises and equipment	2,251	-
Proceeds from sales of other real estate	7,330	8,297
Net cash received in business combinations	-	89,037
Net cash used in investing activities	(232,778)	(145,421)
Financing Activities		
Net increase in deposits	262,217	272,660
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	7,754	(69,060)
Net increase (decrease) in short-term borrowings	16	(19,936)
Payments on long-term FHLB advances	(60)	(82)
Common stock dividends	(15,597)	(15,560)
Common stock issued-net, long-term incentive plan	(792)	(829)
Excess tax (expense) benefit from stock-based compensation arrangements	(97)	269
Net cash provided by financing activities	253,441	167,462

Increase in cash and cash equivalents	78,058	11,407
Cash and cash equivalents at beginning of period	345,761	231,489
Cash and cash equivalents at end of period	$423,819	$242,896

See notes to consolidated financial statements.

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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 209 offices in Alabama, Florida, Mississippi, Tennessee and Texas.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2013 annual report on Form 10-K.

Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting period and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2014 actual conditions could vary from those anticipated, which could affect our results of operations and financial condition. The allowance for loan losses, the amount and timing of expected cash flows from acquired loans and the Federal Deposit Insurance Corporation (FDIC) indemnification asset, the valuation of other real estate, the fair value of mortgage servicing rights, the valuation of goodwill and other identifiable intangibles, the status of contingencies and the fair values of financial instruments are particularly subject to change. Actual results could differ from those estimates.

Note 2 – Business Combinations

Somerville Bank & Trust Company

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

Oxford, Mississippi Branches

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

BancTrust Financial Group, Inc.

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

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

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

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

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

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

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

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

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

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

Fair Value of Acquired Financial Instruments

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

Securities Available for Sale

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

Acquired Loans

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

Identifiable Intangible Assets

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

Other Real Estate

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

Time Deposits

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

FHLB Advances

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

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

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			
March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. Treasury securities	$100	$-	$-	$100	$-	$-	$-	$-
U.S. Government agency obligations								
Issued by U.S. Government agencies	124,095	813	(1,540)	123,368	-	-	-	-
Issued by U.S. Government sponsored agencies	40,694	40	(133)	40,601	100,361	292	(120)	100,533
Obligations of states and political subdivisions	166,161	6,452	(176)	172,437	65,757	3,032	-	68,789
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	13,771	541	(49)	14,263	12,177	201	(2)	12,376
Issued by FNMA and FHLMC	229,915	3,511	(938)	232,488	12,395	37	(10)	12,422
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,535,141	12,173	(17,246)	1,530,068	822,135	3,020	(5,160)	819,995
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	225,065	7,199	(192)	232,072	142,744	236	(2,489)	140,491
Asset-backed securities and structured financial products	35,891	1,153	-	37,044	-	-	-	-
Total	$2,370,833	$31,882	$(20,274)	$2,382,441	$1,155,569	$6,818	$(7,781)	$1,154,606

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

During the fourth quarter of 2013, Trustmark reclassified approximately $1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities totaled approximately $46.6 million ($28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result

of the transfer. At March 31, 2014, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $45.0 million ($27.8 million, net of tax).

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

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	
March 31, 2014	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 agencies	$74,562	$(752)	$9,671	$(788)	$84,233	$(1,540)
Issued by U.S. Government sponsored agencies	87,241	(253)	-	-	87,241	(253)
Obligations of states and political subdivisions	14,018	(166)	583	(10)	14,601	(176)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	8,909	(49)	156	(2)	9,065	(51)
Issued by FNMA and FHLMC	83,252	(948)	-	-	83,252	(948)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	1,266,804	(21,777)	50,045	(629)	1,316,849	(22,406)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	151,393	(2,681)	-	-	151,393	(2,681)
Total	$1,686,179	$(26,626)	$60,455	$(1,429)	$1,746,634	$(28,055)
December 31, 2013						
U.S. Government agency obligations						
Issued by U.S. Government agencies	$68,908	$(1,485)	$-	$ -	$68,908	$(1,485)
Issued by U.S. Government sponsored agencies	138,478	(2,101)	-	-	138,478	(2,101)
Obligations of states and political subdivisions	55,963	(586)	796	(10)	56,759	(596)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	14,732	(155)	161	(1)	14,893	(156)
Issued by FNMA and FHLMC	118,466	(2,071)	-	-	118,466	(2,071)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	1,534,381	(36,750)	23,458	(415)	1,557,839	(37,165)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	177,412	(4,214)	-	-	177,412	(4,214)
Total	$2,108,340	$(47,362)	$24,415	$(426)	$2,132,755	$(47,788)

The unrealized losses shown above are primarily due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at March 31, 2014. There were no other-than-temporary impairments for the three months ended March 31, 2014 and 2013.

Security Gains and Losses

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

	Three Months Ended March 31,	
Available for Sale	2014	2013
Proceeds from calls and sales of securities	$26,274	$35,748
Gross realized gains	389	219
Gross realized (losses)	-	(15)

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

Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at March 31, 2014, by contractual maturity, are shown below ($ in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$9,597	$9,658	$2,284	$2,315
Due after one year through five years	126,829	130,841	12,984	13,928
Due after five years through ten years	70,137	72,255	134,545	136,620
Due after ten years	160,378	160,796	16,305	16,459
	366,941	373,550	166,118	169,322
Mortgage-backed securities	2,003,892	2,008,891	989,451	985,284
Total	$2,370,833	$2,382,441	$1,155,569	$1,154,606

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

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

	March 31, 2014	December 31, 2013
Loans secured by real estate:		
Construction, land development and other land loans	$592,658	$596,889
Secured by 1-4 family residential properties	1,533,781	1,485,564
Secured by nonfarm, nonresidential properties	1,461,947	1,415,139
Other	193,221	189,362
Commercial and industrial loans	1,207,367	1,157,614
Consumer loans	160,153	165,308
Other loans	774,639	789,005
LHFI	5,923,766	5,798,881
Less allowance for loan losses, LHFI	67,518	66,448
Net LHFI	$5,856,248	$5,732,433

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At March 31, 2014, Trustmark's geographic loan distribution was concentrated primarily in its five key market regions, Alabama, Florida, Mississippi, Tennessee and Texas. Accordingly, the ultimate collectability of a substantial portion of these loans and the recovery of a substantial portion of the carrying amount of other real estate are susceptible to changes in market conditions in these areas.

Nonaccrual/Impaired LHFI

At March 31, 2014 and December 31, 2013, the carrying amounts of nonaccrual LHFI, which are individually evaluated for impairment, were $64.0 million and $65.2 million, respectively. Of this total, all commercial nonaccrual LHFI over $500 thousand were specifically evaluated for impairment (specifically evaluated impaired LHFI) using a fair value approach. The remaining nonaccrual LHFI were not specifically reviewed and not written down to fair

value less cost to sell. No material interest income was recognized in the income statement on impaired or nonaccrual loans for each of the periods ended March 31, 2014 and 2013.

All of Trustmark's specifically evaluated impaired LHFI are collateral dependent loans. At March 31, 2014 and December 31, 2013, specifically evaluated impaired LHFI totaled $27.6 million and $31.6 million, respectively. In addition, these specifically evaluated impaired LHFI had a related allowance of $1.8 million and $2.2 million at the end of the respective periods. For collateral dependent loans, when a loan is deemed impaired, the full difference between the carrying amount of the loan and the most likely estimate of the asset's fair value less cost to sell is charged off. Charge-offs related to specifically evaluated impaired LHFI totaled $46 thousand and $986 thousand for the first three months of 2014 and 2013, respectively. Provision recapture on specifically evaluated impaired LFHI totaled $536 thousand and $1.3 million for the first three months of 2014 and 2013, respectively.

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

At March 31, 2014 and December 31, 2013, nonaccrual LHFI not specifically reviewed for impairment and not written down to fair value less cost to sell, totaled $36.4 million and $33.7 million, respectively. In addition, these nonaccrual LHFI had allocated allowance for loan losses of $3.7 million and $3.0 million at the end of the respective periods.

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

	March 31, 2014		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$11,259	$581,399	$592,658
Secured by 1-4 family residential properties	24,585	1,509,196	1,533,781
Secured by nonfarm, nonresidential properties	20,701	1,441,246	1,461,947
Other	1,307	191,914	193,221
Commercial and industrial loans	5,451	1,201,916	1,207,367
Consumer loans	134	160,019	160,153
Other loans	561	774,078	774,639
Total	$63,998	$5,859,768	$5,923,766

	December 31, 2013		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$13,327	$583,562	$596,889
Secured by 1-4 family residential properties	21,603	1,463,961	1,485,564
Secured by nonfarm, nonresidential properties	21,809	1,393,330	1,415,139
Other	1,327	188,035	189,362
Commercial and industrial loans	6,286	1,151,328	1,157,614
Consumer loans	151	165,157	165,308
Other loans	735	788,270	789,005
Total	$65,238	$5,733,643	$5,798,881

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

	March 31, 2014 LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	$17,722	$ 8,974	$ 2,285	$11,259	$ 674	$ 12,293
Secured by 1-4 family residential properties	29,417	2,218	22,367	24,585	244	23,094
Secured by nonfarm, nonresidential properties	23,779	9,471	11,230	20,701	2,123	21,255
Other	1,363	-	1,307	1,307	121	1,317
Commercial and industrial loans	7,951	2,273	3,178	5,451	2,111	5,869
Consumer loans	248	-	134	134	1	143
Other loans	673	-	561	561	267	648
Total	$81,153	$ 22,936	$ 41,062	$63,998	$ 5,541	$ 64,619

	December 31, 2013 LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	$24,350	$ 9,817	$ 3,510	$13,327	$ 989	$ 20,216
Secured by 1-4 family residential properties	26,541	3,095	18,508	21,603	191	24,359
Secured by nonfarm, nonresidential properties	24,879	10,225	11,584	21,809	2,307	20,049
Other	1,375	-	1,327	1,327	122	2,641
Commercial and industrial loans	8,702	2,506	3,780	6,286	1,253	5,513
Consumer loans	286	-	151	151	2	255
Other loans	849	-	735	735	317	767
Total	$86,982	$ 25,643	$ 39,595	$65,238	$ 5,181	$ 73,800

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

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

the loan and reported as a foreclosed asset.

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

At March 31, 2014 and December 31, 2013, LHFI classified as TDRs totaled $13.4 million and $14.8 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time totaling $9.1 million and $11.1 million, respectively. The remaining TDRs at March 31, 2014 and December 31, 2013 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions.

For TDRs, Trustmark had a related loan loss allowance of $1.6 million at the end of each respective period. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. There were no specific charge-offs related to TDRs for the three months ended March 31, 2014 compared to $60 thousand for the three months ended March 31, 2013.

The following table illustrates the impact of modifications classified as TDRs as well as those TDRs modified within the last 12 months for which there was a payment default during the period for the three months ended March 31, 2014 and 2013 ($ in thousands):

	Three Months Ended March 31, 2014		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Secured by 1-4 family residential properties	10	$ 703	$ 694

	Three Months Ended March 31, 2013		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Secured by 1-4 family residential properties	2	$ 249	$ 193
Secured by nonfarm, nonresidential properties	1	952	952
Commercial and industrial	2	944	937
Other loans	1	2,490	2,490
Total	6	$ 4,635	$ 4,572

	Three Months Ended March 31,			
	2014		2013	
Troubled Debt Restructurings that Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Construction, land development and other land loans	-	$ -	4	$ 236
Secured by 1-4 family residential properties	-	-	19	1,506
Total	-	$ -	23	$ 1,742

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 March 31, 2014 and December 31, 2013, the following table details LHFI classified as TDRs by loan type ($ in thousands):

	March 31, 2014		
	Accruing	Nonaccrual	Total
Construction, land development and other land loans	$-	$ 4,757	$4,757
Secured by 1-4 family residential properties	1,540	4,141	5,681
Secured by nonfarm, nonresidential properties	-	2,215	2,215
Other loans secured by real estate	-	164	164
Commercial and industrial	-	542	542
Total Troubled Debt Restructurings by Type	$1,540	$ 11,819	$13,359

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

Credit Quality Indicators

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

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

- Credit File Completeness and Financial Statement Exceptions – evaluates the quality and condition of credit files in terms of content, completeness and organization and focuses on efforts to obtain and document sufficient information to determine the quality and status of credits. Also included is an evaluation of the systems/procedures used to insure compliance with policy such as financial statements, review memos and loan agreements.
- Underwriting/Policy – evaluates whether credits are adequately analyzed, appropriately structured and properly approved within requirements of bank loan policy. A properly approved credit is approved by adequate authority in a timely manner with all conditions of approval fulfilled. Total policy exceptions measure the level of underwriting and other policy exceptions within a loan portfolio.
- Collateral Documentation – focuses on the adequacy of documentation to support the obligation, perfect Trustmark's collateral position and protect collateral value. There are two parts to this measure:
  - ü Collateral exceptions are where certain collateral documentation is either not present, is not considered current or has expired.
  - ü 90 days and over collateral exceptions are where certain collateral documentation is either not present, is not considered current or has expired and the exception has been identified in excess of 90 days.
- Compliance with Law – focuses on underwriting, documentation, approval and reporting in compliance with banking laws and regulations. Primary emphasis is directed to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and Regulation O requirements.

Commercial Credits

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

- Risk Rate (RR) 1 through RR 6 – Grades one through six represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risk measured by using a variety of credit risk criteria such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.
- Other Assets Especially Mentioned (OAEM) - (RR 7) – a loan that has a potential weakness that if not corrected will lead to a more severe rating. This rating is for credits that are currently protected but potentially weak because of an adverse feature or condition that if not corrected will lead to a further downgrade.
- Substandard (RR 8) – a loan that has at least one identified weakness that is well defined. This rating is for credits where the primary sources of repayment are not viable at the time of evaluation or where either the capital or collateral is not adequate to support the loan and the secondary means of repayment do not provide a sufficient level of support to offset the identified weakness. Loss potential exists in the aggregate amount of substandard loans but does not necessarily exist in individual loans.
- Doubtful (RR 9) – a loan with an identified weakness that does not have a valid secondary source of repayment. Generally these credits have an impaired primary source of repayment and secondary sources are not sufficient to prevent a loss in the credit. The exact amount of the loss has not been determined at this time.
- Loss (RR 10) – a loan or a portion of a loan that is deemed to be uncollectible.

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

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

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

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

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

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

individual area.

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

Consumer Credits

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

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

The tables below illustrate the carrying amount of LHFI by credit quality indicator at March 31, 2014 and December 31, 2013 ($ in thousands):

	March 31, 2014					
		Commercial LHFI				
		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		$484,794	$5,165	$ 44,352	$262	$534,573
Secured by 1-4 family residential properties		123,788	1,566	7,414	185	132,953
Secured by nonfarm, nonresidential properties		1,368,632	9,660	81,973	308	1,460,573
Other		183,131	-	6,680	238	190,049
Commercial and industrial loans		1,150,067	19,826	35,808	1,662	1,207,363
Consumer loans		253	-	-	-	253
Other loans		761,979	60	6,998	561	769,598
		$4,072,644	$36,277	$ 183,225	$3,216	$4,295,362

	Consumer LHFI					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total LHFI
Loans secured by real estate:						
Construction, land development and other land loans	$57,524	$399	$ -	$ 162	$58,085	$592,658
Secured by 1-4 family residential properties	1,370,812	7,232	1,430	21,354	1,400,828	1,533,781
Secured by nonfarm, nonresidential properties	1,374	-	-	-	1,374	1,461,947
Other	3,172	-	-	-	3,172	193,221
Commercial and industrial loans	3	-	1	-	4	1,207,367
Consumer loans	158,100	1,383	284	133	159,900	160,153
Other loans	5,041	-	-	-	5,041	774,639

$1,596,026	$9,014	$1,715	$21,649	$1,628,404	$5,923,766

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

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

Past Due LHFI and LHFS

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

March 31, 2014					
Past Due					
30-89 Days	90 Days or More (1)	Total	Nonaccrual	Current Loans	Total LHFI

Loans secured by real estate:						
Construction, land development and other land loans	$2,530	$154	$2,684	$ 11,259	$578,715	$592,658
Secured by 1-4 family residential properties	7,969	1,431	9,400	24,585	1,499,796	1,533,781
Secured by nonfarm, nonresidential properties	1,418	-	1,418	20,701	1,439,828	1,461,947
Other	63	-	63	1,307	191,851	193,221
Commercial and industrial loans	1,874	-	1,874	5,451	1,200,042	1,207,367
Consumer loans	1,382	284	1,666	134	158,353	160,153
Other loans	4	-	4	561	774,074	774,639
Total	$15,240	$1,869	$17,109	$ 63,998	$5,842,659	$5,923,766

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

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

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

LHFS past due 90 days or more totaled $20.1 million and $21.5 million at March 31, 2014 and December 31, 2013, respectively. LHFS past due 90 days or more are serviced loans eligible for repurchase, which are fully guaranteed by the Government National Mortgage Association (GNMA). GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings.

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

Allowance for Loan Losses, LHFI

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

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

Commercial Construction LHFI
- 1 to 4 Family
- Non-1 to 4 Family

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

Qualitative factors used in the allowance methodology include the following:

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

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

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

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

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

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

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

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

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

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

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

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

	Three Months Ended March 31,	
	2014	2013
Balance at January 1,	$66,448	$78,738
Loans charged-off	(3,016)	(3,325)
Recoveries	4,891	4,455
Net recoveries	1,875	1,130
Provision for loan losses, LHFI	(805)	(2,968)
Balance at March 31,	$67,518	$76,900

The following tables detail the balance in the allowance for loan losses, LHFI by portfolio segment at March 31, 2014 and 2013 ($ in thousands):

	2014				
	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance March 31,
Loans secured by real estate:					
Construction, land development and other land loans	$13,165	$ (49)	$2,615	$ (3,297)	$12,434
Secured by 1-4 family residential properties	9,633	(1,282)	64	515	8,930
Secured by nonfarm, nonresidential properties	19,672	(47)	33	(859)	18,799
Other	2,080	-	-	24	2,104
Commercial and industrial loans	15,522	(121)	185	3,494	19,080
Consumer loans	2,405	(510)	1,068	(910)	2,053
Other loans	3,971	(1,007)	926	228	4,118
Total allowance for loan losses, LHFI	$66,448	$ (3,016)	$4,891	$ (805)	$67,518

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$674	$ 11,760	$12,434
Secured by 1-4 family residential properties	244	8,686	8,930
Secured by nonfarm, nonresidential properties	2,123	16,676	18,799
Other	121	1,983	2,104
Commercial and industrial loans	2,111	16,969	19,080
Consumer loans	1	2,052	2,053
Other loans	267	3,851	4,118
Total allowance for loan losses, LHFI	$5,541	$ 61,977	$67,518

	2013				
	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance March 31,
Loans secured by real estate:					
Construction, land development and other land loans	$21,838	$ (297)	$-	$ (1,964)	$19,577
Secured by 1-4 family residential properties	12,957	(209)	59	(1,083)	11,724
Secured by nonfarm, nonresidential properties	21,096	(168)	-	(896)	20,032
Other	2,197	(910)	-	53	1,340
Commercial and industrial loans	14,319	(40)	2,031	1,360	17,670
Consumer loans	3,087	(634)	1,451	(876)	3,028
Other loans	3,244	(1,067)	914	438	3,529
Total allowance for loan losses, LHFI	$78,738	$ (3,325)	$4,455	$ (2,968)	$76,900

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$3,514	$ 16,063	$19,577
Secured by 1-4 family residential properties	1,117	10,607	11,724
Secured by nonfarm, nonresidential properties	2,170	17,862	20,032
Other	32	1,308	1,340
Commercial and industrial loans	3,584	14,086	17,670
Consumer loans	2	3,026	3,028
Other loans	594	2,935	3,529
Total allowance for loan losses, LHFI	$11,013	$ 65,887	$76,900

Note 5 – Acquired Loans

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

	March 31, 2014		December 31, 2013	
	Covered	Noncovered	Covered	Noncovered
Loans secured by real estate:				
Construction, land development and other land loans	$2,239	$ 88,683	$2,363	$ 98,928
Secured by 1-4 family residential properties	15,572	145,213	16,416	157,914
Secured by nonfarm, nonresidential properties	10,629	271,696	10,945	287,136
Other	2,470	34,787	2,644	33,948
Commercial and industrial loans	361	135,114	394	149,495
Consumer loans	49	15,024	119	18,428
Other loans	1,350	23,130	1,335	24,141
Acquired loans	32,670	713,647	34,216	769,990
Less allowance for loan losses, acquired loans	1,800	8,740	2,387	7,249
Net acquired loans	$30,870	$ 704,907	$31,829	$ 762,741

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

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

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

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

The following table presents changes in the net carrying value of the acquired loans for the periods presented ($ in thousands):

	Covered		Noncovered	
	Acquired Impaired	Acquired Not ASC 310-30 (1)	Acquired Impaired	Acquired Not ASC 310-30 (1)
Carrying value, net at January 1, 2013	$45,391	$ 2,460	$72,942	$6,696
Loans acquired (2)	-	-	790,335	153,900
Accretion to interest income	5,150	159	35,538	2,628
Payments received, net	(18,976)	(819)	(229,618)	(39,281)
Other	(3,202)	(137)	(24,177)	(858)
Less change in allowance for loan losses, acquired loans	1,803	-	(5,364)	-
Carrying value, net at December 31, 2013	30,166	1,663	639,656	123,085
Loans acquired	-	-	-	-
Accretion to interest income	1,020	1	11,689	456
Payments received, net	(2,763)	171	(42,834)	(4,748)
Other	25	-	(13,417)	(7,489)
Less change in allowance for loan losses, acquired loans	587	-	(1,491)	-
Carrying value, net at March 31, 2014	$29,035	$ 1,835	$593,603	$111,304

(1) Acquired nonimpaired loans consist of revolving credit agreements and commercial leases that are not in scope for FASB ASC Topic 310-30.
(2) Adjusted fair value of loans acquired from BancTrust on February 15, 2013.

Under FASB ASC Topic 310-30, the accretable yield is the excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans and is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. The following table presents changes in the accretable yield for the three months ended March 31, 2014 and 2013 ($ in thousands):

	Three Months Ended March 31,	
	2014	2013
Accretable yield at January 1,	$(109,006)	$(26,383)
Additions due to acquisition (1)	-	(98,394)
Accretion to interest income	12,709	7,816
Disposals	2,883	1,575

Reclassification to / (from) nonaccretable difference (2)	(11,904)	(2,556)
Accretable yield at March 31,	$(105,318)	$(117,942)

(1) Accretable yield on loans acquired from BancTrust on February 15, 2013, adjusted for measurement period adjustments.
(2) Reclassifications from nonaccretable difference are due to lower loss expectations and improvements in expected cash flows.
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The following tables present the components of the allowance for loan losses on acquired loans for the three months ended March 31, 2014 and 2013 ($ in thousands):

	Covered	Noncovered	Total
Balance at January 1, 2014	$ 2,387	$ 7,249	$ 9,636
Provision for loan losses, acquired loans	(474)	537	63
Loans charged-off	(53)	729	676
Recoveries	(60)	225	165
Net (charge-offs) recoveries	(113)	954	841
Balance at March 31, 2014	$ 1,800	$ 8,740	$ 10,540

	Covered	Noncovered	Total
Balance at January 1, 2013	$ 4,190	$ 1,885	$ 6,075
Provision for loan losses, acquired loans	(564)	694	130
Loans charged-off	862	(642)	220
Recoveries	9	24	33
Net recoveries (charge-offs)	871	(618)	253
Balance at March 31, 2013	$ 4,497	$ 1,961	$ 6,458

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

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

	March 31, 2014				
	Commercial Loans				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Covered Loans: (1)					
Loans secured by real estate:					
Construction, land development and other land loans	$203	$-	$ 1,110	$796	$2,109
Secured by 1-4 family residential properties	1,802	374	1,403	-	3,579
Secured by nonfarm, nonresidential properties	5,333	105	4,549	-	9,987
Other	857	128	722	2	1,709
Commercial and industrial loans	227	27	107	-	361
Consumer loans	-	-	-	-	-
Other loans	247	-	435	665	1,347
Total covered loans	8,669	634	8,326	1,463	19,092
Noncovered loans:					
Loans secured by real estate:					
Construction, land development and other land loans	34,577	1,456	38,280	8,363	82,676
Secured by 1-4 family residential properties	33,574	1,611	15,828	214	51,227
Secured by nonfarm, nonresidential properties	176,764	6,787	84,451	3,694	271,696
Other	29,228	910	4,266	285	34,689
Commercial and industrial loans	105,176	1,886	22,509	5,543	135,114
Consumer loans	-	-	-	-	-
Other loans	20,720	-	1,004	1,351	23,075
Total noncovered loans	400,039	12,650	166,338	19,450	598,477
Total acquired loans	$408,708	$13,284	$ 174,664	$20,913	$617,569

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total Acquired Loans
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land loans	$130	$-	$-	$ -	$130	$2,239
Secured by 1-4 family residential properties	10,804	753	431	5	11,993	15,572
Secured by nonfarm, nonresidential properties	469	-	173	-	642	10,629
Other	676	85	-	-	761	2,470
Commercial and industrial loans	-	-	-	-	-	361
Consumer loans	44	5	-	-	49	49
Other loans	3	-	-	-	3	1,350
Total covered loans	12,126	843	604	5	13,578	32,670

Noncovered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	5,371	135	501	-	6,007	88,683
Secured by 1-4 family residential properties	87,982	3,135	2,786	83	93,986	145,213
Secured by nonfarm, nonresidential properties	-	-	-	-	-	271,696
Other	98	-	-	-	98	34,787
Commercial and industrial loans	-	-	-	-	-	135,114
Consumer loans	14,781	236	7	-	15,024	15,024
Other loans	55	-	-	-	55	23,130
Total noncovered loans	108,287	3,506	3,294	83	115,170	713,647
Total acquired loans	$120,413	$4,349	$3,898	$ 88	$128,748	$746,317

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC.
TNB is at risk for only 20% of the losses incurred on these loans.
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	December 31, 2013				
	Commercial Loans				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Covered Loans: (1)					
Loans secured by real estate:					
Construction, land development and other land loans	$228	$-	$ 1,126	$771	$2,125
Secured by 1-4 family residential properties	1,629	430	1,798	-	3,857
Secured by nonfarm, nonresidential properties	5,446	109	4,723	-	10,278
Other	832	134	717	2	1,685
Commercial and industrial loans	254	28	112	-	394
Consumer loans	-	-	-	-	-
Other loans	271	-	414	646	1,331
Total covered loans	8,660	701	8,890	1,419	19,670
Noncovered loans:					
Loans secured by real estate:					
Construction, land development and other land loans	39,075	2,506	42,486	8,445	92,512
Secured by 1-4 family residential properties	33,810	2,983	17,422	538	54,753
Secured by nonfarm, nonresidential properties	184,594	9,027	88,952	4,563	287,136
Other	28,156	1,437	4,071	184	33,848
Commercial and industrial loans	116,818	2,248	24,084	6,039	149,189
Consumer loans	21	-	-	-	21
Other loans	21,881	-	882	1,306	24,069
Total noncovered loans	424,355	18,201	177,897	21,075	641,528
Total acquired loans	$433,015	$ 18,902	$ 186,787	$22,494	$661,198

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total Acquired Loans
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land loans	$133	$77	$28	$ -	$238	$2,363
Secured by 1-4 family residential properties	11,179	428	952	-	12,559	16,416
Secured by nonfarm, nonresidential properties	495	-	172	-	667	10,945
Other	617	342	-	-	959	2,644
Commercial and industrial loans	-	-	-	-	-	394
Consumer loans	119	-	-	-	119	119
Other loans	4	-	-	-	4	1,335
Total covered loans	12,547	847	1,152	-	14,546	34,216
Noncovered loans:						
Loans secured by real estate:						
	5,813	108	495	-	6,416	98,928

Construction, land development and other land loans						
Secured by 1-4 family residential properties	95,987	3,599	3,466	109	103,161	157,914
Secured by nonfarm, nonresidential properties	-	-	-	-	-	287,136
Other	100	-	-	-	100	33,948
Commercial and industrial loans	306	-	-	-	306	149,495
Consumer loans	18,076	239	92	-	18,407	18,428
Other loans	72	-	-	-	72	24,141
Total noncovered loans	120,354	3,946	4,053	109	128,462	769,990
Total acquired loans	$132,901	$4,793	$5,205	$ 109	$143,008	$804,206

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC.
TNB is at risk for only 20% of the losses incurred on these loans.

At March 31, 2014 and December 31, 2013, there were no acquired impaired loans accounted for under FASB ASC Topic 310-30 classified as nonaccrual loans. At March 31, 2014, approximately $2.8 million of acquired loans not accounted for under FASB ASC Topic 310-30 were classified as nonaccrual loans, compared to approximately $2.4 million of acquired loans at December 31, 2013.

The following table provides an aging analysis of contractually past due and nonaccrual acquired loans, by class at March 31, 2014 and December 31, 2013 ($ in thousands):

	March 31, 2014					
	Past Due					
	30-89 Days	90 Days or More (1)	Total	Nonaccrual (2)	Current Loans	Total Acquired Loans
Covered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	$1	$553	$554	$ 445	$1,240	$2,239
Secured by 1-4 family residential properties	1,275	535	1,810	5	13,757	15,572
Secured by nonfarm, nonresidential properties	2,429	487	2,916	-	7,713	10,629
Other	358	301	659	-	1,811	2,470
Commercial and industrial loans	39	-	39	74	248	361
Consumer loans	5	-	5	-	44	49
Other loans	435	665	1,100	-	250	1,350
Total covered loans	4,542	2,541	7,083	524	25,063	32,670
Noncovered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	1,476	28,046	29,522	230	58,931	88,683
Secured by 1-4 family residential properties	5,146	4,838	9,984	530	134,699	145,213
Secured by nonfarm, nonresidential properties	5,728	14,990	20,718	293	250,685	271,696
Other	100	2,662	2,762	283	31,742	34,787
Commercial and industrial loans	7,640	2,999	10,639	958	123,517	135,114
Consumer loans	236	7	243	-	14,781	15,024
Other loans	169	89	258	19	22,853	23,130
Total noncovered loans	20,495	53,631	74,126	2,313	637,208	713,647
Total acquired loans	$25,037	$56,172	$81,209	$ 2,837	$662,271	$746,317

(1) - Past due 90 days or more but still accruing interest.
(2) - Acquired loans not accounted for under FASB ASC Topic 310-30.

	December 31, 2013					
	Past Due					
	30-89 Days	90 Days or More (1)	Total	Nonaccrual (2)	Current Loans	Total Acquired Loans
Covered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	$87	$553	$640	$ 445	$1,278	$2,363
Secured by 1-4 family residential properties	873	1,142	2,015	-	14,401	16,416
Secured by nonfarm, nonresidential properties	1,905	793	2,698	-	8,247	10,945
Other	710	2	712	-	1,932	2,644
Commercial and industrial loans	13	-	13	41	340	394

Consumer loans	-	-	-	-	119	119
Other loans	-	646	646	-	689	1,335
Total covered loans	3,588	3,136	6,724	486	27,006	34,216
Noncovered loans:						
Loans secured by real estate:						
Construction, land development and other land loans	2,116	31,744	33,860	67	65,001	98,928
Secured by 1-4 family residential properties	5,067	7,589	12,656	116	145,142	157,914
Secured by nonfarm, nonresidential properties	7,978	15,421	23,399	461	263,276	287,136
Other	40	1,922	1,962	33	31,953	33,948
Commercial and industrial loans	743	3,387	4,130	1,170	144,195	149,495
Consumer loans	239	92	331	-	18,097	18,428
Other loans	-	153	153	20	23,968	24,141
Total noncovered loans	16,183	60,308	76,491	1,867	691,632	769,990
Total acquired loans	$19,771	$63,444	$83,215	$ 2,353	$718,638	$804,206

(1) - Past due 90 days or more but still accruing interest.
(2) - Acquired loans not accounted for under FASB ASC Topic 310-30.
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Note 6 – Mortgage Banking

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

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$67,834	$47,341
Origination of servicing assets	2,315	5,521
Change in fair value:		
Due to market changes	(723)	1,127
Due to runoff	(1,812)	(2,460)
Balance at end of period	$67,614	$51,529

During the first three months of 2014 and 2013, Trustmark sold $184.9 million and $392.0 million, respectively, of residential mortgage loans. Pretax gains on these sales were recorded to noninterest income in mortgage banking, net and totaled $1.8 million for the first three months of 2014 compared to $10.2 million for the first three months of 2013. Trustmark's mortgage loans serviced for others totaled $5.514 billion at March 31, 2014, compared with $5.461 billion at December 31, 2013.

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

The total mortgage loan servicing putback expenses incurred by Trustmark during the first three months of 2014 and 2013 were $150 thousand and $590 thousand, respectively. During November 2013, Trustmark finalized its agreement with FNMA (the "Resolution Agreement") to resolve its existing and future repurchase and make whole obligations (collectively “Repurchase Obligations”) related to mortgage loans originated between January 1, 2000 and December 31, 2008 and delivered to FNMA. Under the terms of the Resolution Agreement, Trustmark paid FNMA approximately $3.6 million with respect to the Repurchase Obligations. Trustmark believes that it was in its best interests to execute the Resolution Agreement in order to bring finality to the loss reimbursement exposure with FNMA for these years and reduce the resources spent on individual file reviews and defending loss reimbursement requests. The Repurchase Obligations were covered by Trustmark’s existing reserve for mortgage loan servicing putback expenses. At both March 31, 2014 and December 31, 2013, the reserve for mortgage loan servicing putback expenses totaled $1.1 million.

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

Note 7 – Other Real Estate and Covered Other Real Estate

Other Real Estate, excluding Covered Other Real Estate

At March 31, 2014, Trustmark's geographic other real estate distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. The ultimate recovery of a substantial portion of the carrying amount of other real estate, excluding covered other real estate, is susceptible to changes in market conditions in these areas.

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

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$106,539	$78,189
Additions (1)	13,694	49,980
Disposals	(7,594)	(8,162)
Writedowns	(1,103)	(1,601)
Balance at end of period	$111,536	$118,406
Loss, net on the sale of other real estate included in ORE/Foreclosure expense	$(415)	$(15)

(1) Additions as of March 31, 2013 included $41.2 million of other real estate acquired from BancTrust on February 15, 2013.

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

	March 31, 2014	December 31, 2013
Construction, land development and other land properties	$68,216	$65,273
1-4 family residential properties	13,994	14,696
Nonfarm, nonresidential properties	29,152	26,433
Other real estate properties	174	137
Total other real estate, excluding covered other real estate	$111,536	$106,539

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

	March 31, 2014	December 31, 2013
Alabama	$24,103	$25,912
Florida	42,013	34,480
Mississippi (1)	22,287	22,766
Tennessee (2)	13,000	12,892
Texas	10,133	10,489
Total other real estate, excluding covered other real estate	$111,536	$106,539

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

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Covered Other Real Estate

For the three months ended March 31, 2014 and 2013, changes and gains (losses), net on covered other real estate were as follows ($ in thousands):

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$5,108	$5,741
Transfers from covered loans	98	947
FASB ASC 310-30 adjustment for the residual recorded investment	(52)	(246)
Net transfers from covered loans	46	701
Disposals	(315)	(203)
Writedowns	(80)	(360)
Balance at end of period	$4,759	$5,879
Loss, net on the sale of covered other real estate included in ORE/Foreclosure expense	$(120)	$(59)

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

	March 31, 2014	December 31, 2013
Construction, land development and other land properties	$725	$ 733
1-4 family residential properties	1,586	1,981
Nonfarm, nonresidential properties	2,448	2,394
Total covered other real estate	$4,759	$ 5,108

Note 8 – FDIC Indemnification Asset

Pursuant to the provisions of the loss-share agreement, TNB may be required to make a true-up payment to the FDIC at the termination of the loss-share agreement should actual losses be less than certain thresholds established in the agreement. TNB calculates the projected true-up payable to the FDIC quarterly and records a FDIC true-up provision for the present value of the projected true-up payable to the FDIC at the termination of the loss-share agreement. TNB’s FDIC true-up provision totaled $1.9 million and $1.7 million at March 31, 2014 and December 31, 2013, respectively.

Trustmark periodically re-estimates the expected cash flows on the acquired covered loans as required by FASB ASC Topic 310-30. For the first three months of 2014 and 2013, this analysis resulted in improvements in the estimated future cash flows of the acquired covered loans that remain outstanding as well as lower expected remaining losses on those loans, primarily due to pay-offs of acquired covered loans. The pay-offs and improvements in the estimated expected cash flows of the acquired covered loans resulted in a reduction of the expected loss-share receivable from the FDIC. Reductions of the FDIC indemnification asset resulting from improvements in expected cash flows and covered losses based on the re-estimation of acquired covered loans are amortized over the lesser of the remaining life or contractual period of the acquired covered loan as a yield adjustment consistent with the associated acquired covered loan. Other noninterest income for the first three months of 2014 included $332 thousand of amortization of the FDIC indemnification asset, compared to $54 thousand of accretion for the first three months of 2013, as a result of improvements in the expected cash flows and lower loss expectations. During the first three months of 2014 and 2013, other noninterest income included a reduction of the FDIC indemnification asset of $356 thousand and $1.4 million, respectively, primarily resulting from loan pay-offs partially offset by loan pools of acquired covered loans

with increased loss expectations.

For the three months ended March 31, 2014 and 2013, changes in the FDIC indemnification asset were as follows ($ in thousands):

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$14,347	$21,774
(Amortization) accretion	(332)	54
Transfers to FDIC claims	(139)	(270)
Change in expected cash flows	(239)	(1,335)
Change in FDIC true-up provision	(150)	(25)
Balance at end of period	$13,487	$20,198

Note 9 – Deposits

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

	March 31, 2014	December 31, 2013
Noninterest-bearing demand deposits	$2,879,341	$2,663,503
Interest-bearing demand	1,833,146	1,923,701
Savings	3,229,737	2,997,294
Time	2,179,895	2,275,404
Total	$10,122,119	$9,859,902

Note 10 – Defined Benefit and Other Postretirement Benefits

Qualified Pension Plans

Trustmark maintains a noncontributory defined benefit pension plan (Trustmark Capital Accumulation Plan), 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, Trustmark's Board of Directors voted to freeze plan benefits effective during 2009, with the exception of certain associates covered through plans obtained by acquisitions. Associates have not earned additional benefits, except for interest as required by Internal Revenue Service (IRS) regulations, since the effective date. Associates will retain their previously earned pension benefits. As a result of the BancTrust acquisition on February 15, 2013, Trustmark acquired a qualified pension plan (BancTrust Pension Plan), which was frozen prior to the acquisition date. On January 28, 2014, Trustmark's Board of Directors authorized the termination of the BancTrust Pension Plan effective as of April 15, 2014. The IRS will be asked to review the BancTrust Pension Plan's tax qualification at its termination, and a determination request will be submitted to the IRS. The Pension Benefit Guaranty Corporation (PBGC) will also review the BancTrust Pension Plan's termination. Plan assets of the BancTrust Pension Plan will continue to be held in trust until the termination distributions are made. The termination of the BancTrust Pension Plan is not expected to have a material impact on net periodic pension cost between the plan termination date and the date final termination distributions are made.

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

	Three Months Ended March 31,

	2014	2013
Net periodic benefit cost		
Service cost	$124	$150
Interest cost	1,321	990
Expected return on plan assets	(1,558)	(1,541)
Recognized net loss due to settlement	375	-
Recognized net actuarial loss	736	1,395
Net periodic benefit cost	$998	$994

The acceptable range of contributions to Trustmark’s qualified pension plans is determined each year by the plans’ actuary in accordance with applicable IRS rules and regulations. Trustmark's policy is to fund amounts allowable for federal income tax purposes. The actual amount of the contribution is determined based on the plans’ funded status and return on plan assets as of the measurement date, which is December 31. For the plan year ending December 31, 2014, the minimum required contribution for Trustmark’s qualified pension plans is expected to be $2.0 million.
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Supplemental Retirement Plans

Trustmark maintains a nonqualified supplemental retirement plan covering directors who elected to defer fees, key executive officers and senior officers. The plan provides for defined death benefits and/or retirement benefits based on a participant's covered salary. Trustmark has acquired life insurance contracts on the participants covered under the plan, which may be used to fund future payments under the plan. The measurement date for the plan is December 31. As a result of the BancTrust acquisition on February 15, 2013, Trustmark acquired a nonqualified supplemental retirement plan, which plan benefits were frozen prior to the acquisition date. The following table presents information regarding net periodic benefit cost for Trustmark’s nonqualified supplemental retirement plans for the periods presented ($ in thousands):

	Three Months Ended March 31,	
	2014	2013
Net periodic benefit cost		
Service cost	$73	$149
Interest cost	554	484
Amortization of prior service cost	63	63
Recognized net actuarial loss	170	259
Net periodic benefit cost	$860	$955

Note 11 – 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 1997 Plan and the 2005 Plan were granted with an exercise price equal to the market price of Trustmark’s stock on the date of grant, and vested equally in annual increments. No stock options have been granted since 2006, when Trustmark began granting restricted stock awards exclusively.

Restricted Stock Grants

Performance Awards

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

Time-Vested Awards

Trustmark's time-vested awards are granted to Trustmark's Board of Directors, executive and senior management team. Time-vested awards are valued utilizing the fair value of Trustmark's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period.

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

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

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

	Three Months Ended March 31, 2014		
	Stock Options	Performance Awards	Time-Vested Awards
Outstanding/Nonvested shares or units, beginning of period	105,450	160,520	291,634
Granted	-	73,726	103,690
Granted - achievement shares	-	-	-
Exercised or released from restriction	-	(38,580)	(60,339)
Expired	(6,000)	-	-
Forfeited	-	(11,533)	(1,247)
Outstanding/Nonvested shares or units, end of period	99,450	184,133	333,738

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

	Three Months Ended March 31,	
	2014	2013
Compensation expense - Stock and Incentive plans:		
Performance awards	$263	$211
Time-vested awards	928	811
Total	$1,191	$1,022

Note 12 – Contingencies

Lending Related

Trustmark makes commitments to extend credit and issues standby and commercial letters of credit (letters of credit) in the normal course of business in order to fulfill the financing needs of its customers. The carrying amount of commitments to extend credit and letters of credit approximates the fair value of such financial instruments. These amounts are not material to Trustmark's financial statements.

Commitments to extend credit are agreements to lend money to customers pursuant to certain specified conditions. Commitments generally have fixed expiration dates or other termination clauses. Because many of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contract amount of those instruments. Trustmark applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed creditworthiness of the borrower. At March 31, 2014 and 2013, Trustmark had unused commitments to extend credit of $2.289 billion and $2.091 billion, respectively.

Letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third-party. A financial standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral, which are followed in the lending process. At March 31, 2014 and 2013, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was $147.2 million and $156.1 million, respectively. These amounts consist primarily of commitments with maturities of less than three years, which

have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of March 31, 2014, the fair value of collateral held was $37.0 million.

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Legal Proceedings

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in two lawsuits related to the collapse of the Stanford Financial Group. The first is a purported class action complaint that was filed on August 23, 2009 in the District Court of Harris County, Texas, by Peggy Roif Rotstain, Guthrie Abbott, Catherine Burnell, Steven Queyrouze, Jaime Alexis Arroyo Bornstein and Juan C. Olano, on behalf of themselves and all others similarly situated, naming TNB and four other financial institutions unaffiliated with Trustmark as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount of fees and other monies received by each defendant from entities controlled by R. Allen Stanford (collectively, the "Stanford Financial Group") and (ii) damages allegedly attributable to alleged conspiracies by one or more of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud on the asserted grounds that defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme. Plaintiffs have demanded a jury trial. Plaintiffs did not quantify damages. In November 2009, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. In May 2010, all defendants (including TNB) filed motions to dismiss the lawsuit, and the motions to dismiss have been fully briefed by all parties. The court has not yet ruled on the defendants' motions to dismiss. In August 2010, the court authorized and approved the formation of an Official Stanford Investors Committee ("OSIC") to represent the interests of Stanford investors and, under certain circumstances, to file legal actions for the benefit of Stanford investors. In December 2011, the OSIC filed a motion to intervene in this action. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues. In December 2012, the court granted the OSIC's motion to intervene, and the OSIC filed an Intervenor Complaint against one of the other defendant financial institutions. In February 2013, the OSIC filed an additional Intervenor Complaint that asserts claims against TNB and the remaining defendant financial institutions. The OSIC seeks to recover: (i) alleged fraudulent transfers in the amount of the fees each of the defendants allegedly received from Stanford Financial Group, the profits each of the defendants allegedly made from Stanford Financial Group deposits, and other monies each of the defendants allegedly received from Stanford Financial Group; (ii) damages attributable to alleged conspiracies by each of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud and conversion on the asserted grounds that the defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme; and (iii) punitive damages. The OSIC did not quantify damages. In July 2013, all defendants (including TNB) filed motions to dismiss the OSIC's claims. The court has not yet ruled on the defendants' motions to dismiss the OSIC's claims.

The second Stanford-related lawsuit was filed on December 14, 2009 in the District Court of Ascension Parish, Louisiana, individually by Harold Jackson, Paul Blaine, Carolyn Bass Smith, Christine Nichols, and Ronald and Ramona Hebert naming TNB (misnamed as Trust National Bank) and other individuals and entities not affiliated with Trustmark as defendants. The complaint seeks to recover the money lost by these individual plaintiffs as a result of the collapse of the Stanford Financial Group (in addition to other damages) under various theories and causes of action, including negligence, breach of contract, breach of fiduciary duty, negligent misrepresentation, detrimental reliance, conspiracy, and violation of Louisiana's uniform fiduciary, securities, and racketeering laws. The complaint does not quantify the amount of money the plaintiffs seek to recover. In January 2010, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. On March 29, 2010, the court stayed the case. TNB filed a motion to lift the stay, which was denied on February 28, 2012. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues.

TNB's relationship with the Stanford Financial Group began as a result of Trustmark's acquisition of a Houston-based bank in August 2006, and consisted of correspondent banking and other traditional banking services in the ordinary course of business. Both Stanford-related lawsuits are in their preliminary stages and have been previously disclosed by Trustmark.

TNB is the defendant in two putative class actions challenging TNB's practices regarding "overdraft" or "non-sufficient funds" fees charged by TNB in connection with customer use of debit cards, including TNB's order of processing transactions, notices and calculations of charges, and calculations of fees. One of these cases has been dismissed pursuant to a court-approved settlement, and the other case is expected to be dismissed in the near future. Kathy D. White v. TNB was filed in Tennessee state court in Memphis, Tennessee and was removed on June 19, 2012 to the United States District Court for the Western District of Tennessee. (Plaintiff Kathy White had filed an earlier, virtually identical action that was voluntarily dismissed.) Leroy Jenkins v. TNB was filed on June 4, 2012 in the United States District Court for the Southern District of Mississippi. The White and Jenkins pleadings are matters of public record in the files of the courts. In both cases, the plaintiffs purport to represent classes of similarly-situated customers of TNB. The White complaint asserts claims of breach of contract, breach of a duty of good faith and fair dealing, unconscionability, conversion, and unjust enrichment. The Jenkins complaint originally included similar allegations as well as federal-law claims under the Electronic Funds Transfer Act (EFTA) and RICO; however, the RICO claims were voluntarily dismissed from the case on January 9, 2013. Each of these complaints seeks the imposition of a constructive trust and unquantified damages. These complaints were largely patterned after similar lawsuits that have been filed against other banks across the country. On July 19, 2012, the plaintiff in the White case filed an amended complaint to add plaintiffs from Mississippi and also to add federal EFTA claims. Trustmark contends that amended complaint was procedurally improper. On October 4, 2012, the plaintiff in the White case moved for leave to add two Tennessee plaintiffs. Trustmark filed preliminary dismissal and venue transfer motions, and discovery proceeded, in the White case; the Jenkins case also involved active discovery. Trustmark also filed a motion to dismiss all claims except the EFTA claim in the Jenkins case. All of these motions remained pending when the parties engaged in active settlement negotiations under the Mississippi federal court's supervision in June of 2013.

On August 18, 2013, the class action plaintiffs in both cases and Trustmark agreed to a settlement, the terms and conditions of which are set forth in an executed Settlement Agreement and Release (the "Settlement"). The Settlement is a matter of public record in the court file in the Leroy Jenkins case referenced above. The parties reached the Settlement through arm's-length negotiations following two court-ordered settlement conferences with United States Magistrate Judge F. Keith Ball. Under the Settlement, subject to the terms and conditions therein and subject to court approval, and without admission of liability, fault or wrongdoing by Trustmark, plaintiffs and a settlement class consisting of TNB account holders whose accounts met certain criteria with respect to overdraft and non-sufficient funds fees between September 28, 2005 and the date of the court's preliminary approval of the Settlement (the "Settlement Class") would fully, finally, and forever resolve, discharge, and release their claims in exchange for Trustmark's payment of $4.0 million, inclusive of all attorneys' fees and costs, to create a common fund to benefit the Settlement Class. In addition, Trustmark agreed to adhere to its current method of time-ordered posting for non-recurring point of sale and ATM debit transactions for two years following the effective date of the Settlement, and to pay all fees and costs associated with providing notice to the Settlement Class and for implementation of the Settlement by the Settlement Administrator.

In an order dated October 11, 2013, the United States District Court for the Southern District of Mississippi preliminarily approved the Settlement. Notice was provided to members of the Settlement Class, who were given the option of opting out of the Settlement or objecting to the Settlement. Pursuant to court approval, a professional Settlement Administrator was engaged to provide notices to the Settlement Class and to facilitate apportionment of the Settlement funds and payment of the funds among class members. Fewer than twenty class members opted out of the settlement. No one objected to the settlement. The court held a hearing on March 25, 2014, and on that same day the court issued an order and final judgment approving the class-wide Settlement, requiring Trustmark to comply with the agreed-upon practices as described above, prohibiting members of the Settlement Class from filing additional suits (except for those who had opted out of the class), and dismissing the Leroy Jenkins lawsuit with prejudice. Dismissal of the Kathy D. White case is a condition of the class-wide Settlement. That dismissal will be accomplished shortly after the payments to the Settlement Class are finalized.

The Settlement of $4.0 million, or $2.5 million net of taxes, was included in other noninterest expense for the quarter ended June 30, 2013. Trustmark deposited the $4.0 million into the Settlement Administrator's escrow account on October 25, 2013.

Trustmark and its subsidiaries are also parties to other lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to the lending, collection, servicing, investment, trust and other business activities, and some of the lawsuits allege substantial claims for damages.

All pending legal proceedings described above are being vigorously contested. In the regular course of business, Management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever Management believes that such losses are probable and can be reasonably estimated. At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that (i) the final resolution of pending legal proceedings described above will not, individually or in the aggregate, have a material impact on Trustmark's consolidated financial position or results of operations and (ii) a loss in any such case is not probable at this time, and thus no accrual is required under FASB ASC Topic 450-20, "Loss Contingencies." In addition, given the preliminary nature of these matters and the lack of any quantification by plaintiffs of the relief being sought, to the extent that a loss in any such matter may be viewed as reasonably possible under FASB ASC Topic 450-20, it is not possible at this time to provide an estimate of any such possible loss (or range of possible loss) for any such matter.

Note 13 – Earnings Per Share (EPS)

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

	Three Months Ended March 31,	
	2014	2013
Basic shares	67,410	65,983
Dilutive shares	140	167
Diluted shares	67,550	66,150

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

	Three Months Ended March 31,	
	2014	2013
Weighted-average antidilutive stock awards	117	696

Note 14 – Statements of Cash Flows

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

	Three Months Ended March 31,	
	2014	2013
Income taxes paid	$350	$480
Interest expense paid on deposits and borrowings	5,475	5,023
Noncash transfers from loans to other real estate (1)	13,740	8,886
Assets acquired in business combinations	-	1,851,878
Liabilities assumed in business combinations	-	1,821,066

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

Note 15 – Shareholders' Equity

Regulatory Capital

Trustmark and TNB are subject to minimum capital requirements, which are administered by the federal bank regulatory agencies. These capital requirements, as defined by federal regulations, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB. As of March 31, 2014, Trustmark and TNB exceeded all of the minimum capital standards for the parent company and its primary banking subsidiary as established by regulatory requirements. In addition, TNB met applicable regulatory guidelines to be considered well-capitalized at March 31, 2014. To be categorized in this manner, TNB must maintain minimum total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the accompanying table. There are no significant conditions or events that have occurred since March 31, 2014, which Management believes have affected Trustmark’s or TNB's present classification.

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

	Actual Regulatory Capital		Minimum Regulatory Capital Required		Minimum Regulatory Provision to be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2014:						
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,149,286	14.34%	$641,319	8.00%	n/a	n/a
Trustmark National Bank	1,125,674	14.07%	640,125	8.00%	$800,156	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,051,263	13.11%	$320,659	4.00%	n/a	n/a
Trustmark National Bank	1,029,171	12.86%	320,062	4.00%	$480,094	6.00%
Tier 1 Capital (to Average Assets)						
Trustmark Corporation	$1,051,263	9.14%	$459,907	4.00%	n/a	n/a
Trustmark National Bank	1,029,171	8.97%	459,183	4.00%	$573,979	5.00%
At December 31, 2013:						
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,122,904	14.18%	$633,310	8.00%	n/a	n/a
Trustmark National Bank	1,076,391	13.74%	626,672	8.00%	$783,340	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,026,858	12.97%	$316,655	4.00%	n/a	n/a
Trustmark National Bank	982,925	12.55%	313,336	4.00%	$470,004	6.00%
Tier 1 Capital (to Average Assets)						
Trustmark Corporation	$1,026,858	9.06%	$453,487	4.00%	n/a	n/a
Trustmark National Bank	982,925	8.76%	448,665	4.00%	$560,831	5.00%

Accumulated Other Comprehensive (Loss) Income

The following table presents the components of accumulated other comprehensive (loss) income and the related tax effects allocated to each component for the three months ended March 31, 2014 and 2013 ($ in thousands). Reclassification adjustments related to securities available for sale are included in securities gains, net in the accompanying consolidated statements of income. The amortization of prior service cost, recognized net loss due to settlement and recognized net actuarial loss on pension and other postretirement benefit plans are included in the computation of net periodic benefit cost (see Note 10 – Defined Benefit and Other Postretirement Benefits for additional details).

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three Months Ended March 31, 2014:			
Securities available for sale and transferred securities:			
Unrealized holding gains arising during the period	$ 6,848	$ (2,619)	$ 4,229
Reclassification adjustment for net gains realized in net income	(389)	149	(240)
Change in net unrealized holding loss on securities transferred to held to maturity	1,333	(510)	823
Total securities available for sale and transferred securities	7,792	(2,980)	4,812
Pension and other postretirement benefit plans:			
Net change in prior service costs	63	(24)	39
Recognized net loss due to settlement	375	(143)	232
Recognized net actuarial loss	906	(347)	559
Total pension and other postretirement benefit plans	1,344	(514)	830
Derivatives:			
Change in accumulated gain on effective cash flow hedge derivatives	(661)	253	(408)
Total other comprehensive income	$ 8,475	$ (3,241)	$ 5,234
Three Months Ended March 31, 2013:			
Securities available for sale:			
Unrealized holding gains arising during the period	$ 2,234	$ (854)	$ 1,380
Reclassification adjustment for net gains realized in net income	(204)	78	(126)
Total securities available for sale	2,030	(776)	1,254
Pension and other postretirement benefit plans:			
Net change in prior service costs	63	(24)	39
Recognized net actuarial loss	1,654	(633)	1,021
Total pension and other postretirement benefit plans	1,717	(657)	1,060
Total other comprehensive income	$ 3,747	$ (1,433)	$ 2,314

The following table presents the changes in the balances of each component of accumulated other comprehensive (loss) income for the periods ended March 31, 2014 and 2013 ($ in thousands). All amounts are presented net of tax.

	Securities Available for Sale and Transferred Securities	Defined Benefit Pension Items	Gains on Cash Flow Hedge	Total
Balance at January 1, 2014	$ (25,462)	$ (19,793)	$ 1,524	$ (43,731)
Other comprehensive income (loss) before reclassification	5,052	830	(408)	5,474
Amounts reclassified from accumulated other comprehensive income	(240)	-	-	(240)
Net other comprehensive income (loss)	4,812	830	(408)	5,234
Balance at March 31, 2014	$ (20,650)	$ (18,963)	$ 1,116	$ (38,497)
Balance at January 1, 2013	$ 44,935	$ (41,540)	$ -	$ 3,395
Other comprehensive income before reclassification	1,380	1,060	-	2,440
Amounts reclassified from accumulated other comprehensive income	(126)	-	-	(126)
Net other comprehensive income	1,254	1,060	-	2,314
Balance at March 31, 2013	$ 46,189	$ (40,480)	$ -	$ 5,709

Note 16 – Fair Value

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 predominant portion 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. In conjunction with the FASB's fair value measurement guidance, Trustmark made an accounting policy election to measure the credit risk of these derivative financial instruments, which are subject to master netting agreements, on a net basis by counterparty portfolio.

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 exchange-traded derivative instruments such as Treasury note futures contracts and option contracts to achieve a fair value return that offsets the changes in fair value of MSR attributable to interest rates. Fair values of these derivative instruments are determined from quoted prices in active markets for identical assets therefore allowing 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 March 31, 2014 and December 31, 2013, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value ($ in thousands). There were no transfers between fair value levels for the three months ended March 31, 2014 and the year ended December 31, 2013.

	March 31, 2014			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$100	$-	$100	$-
U.S. Government agency obligations	163,969	-	163,969	-
Obligations of states and political subdivisions	172,437	-	172,437	-
Mortgage-backed securities	2,008,891	-	2,008,891	-
Asset-backed securities and structure financial products	37,044	-	37,044	-
Securities available for sale	2,382,441	-	2,382,441	-
Loans held for sale	120,446	-	120,446	-
Mortgage servicing rights	67,614	-	-	67,614
Other assets - derivatives	5,960	(630)	5,774	816
Other liabilities - derivatives	4,485	630	3,855	-

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$502	$-	$502	$-
U.S. Government agency obligations	169,472	-	169,472	-
Obligations of states and political subdivisions	171,738	-	171,738	-
Mortgage-backed securities	1,788,505	-	1,788,505	-
Asset-backed securities and structure financial products	63,937	-	63,937	-
Securities available for sale	2,194,154	-	2,194,154	-
Loans held for sale	149,169	-	149,169	-
Mortgage servicing rights	67,834	-	-	67,834
Other assets - derivatives	4,994	(2,579)	7,447	126
Other liabilities - derivatives	3,298	581	2,717	-

The changes in Level 3 assets measured at fair value on a recurring basis for the periods ended March 31, 2014 and 2013 are summarized as follows ($ in thousands):

	MSR	Other Assets - Derivatives
Balance, January 1, 2014	$67,834	$ 126
Total net (losses) gains included in Mortgage banking, net (1)	(2,535)	802
Additions	2,315	-
Sales	-	(112)
Balance, March 31, 2014	$67,614	$ 816
The amount of total losses for the period included in earnings that are attributable to the change in unrealized gains or losses still held at March 31, 2014	$(723)	$ (96)
Balance, January 1, 2013	$47,341	$ 2,284
Total net (losses) gains included in Mortgage banking, net (1)	(1,333)	2,816
Additions	5,521	-
Sales	-	(3,163)
Balance, March 31, 2013	$51,529	$ 1,937
The amount of total gains for the period included in earnings that are attributable to the change in unrealized gains or losses still held at March 31, 2013	$1,127	$ 427

(1) Total net (losses) gains included in net income relating to MSR includes changes in fair value due to market changes and due to runoff.

Trustmark may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. Assets at March 31, 2014, which have been measured at fair value on a nonrecurring basis, include impaired LHFI. Loans for which it is probable Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement are considered impaired. Impaired LHFI have been determined to be collateral dependent and assessed using a fair value approach. Specific allowances for impaired LHFI are based on comparisons of the recorded carrying values of the loans to the present value of the estimated cash flows of these loans at each loan's original effective interest rate, the fair value of the collateral or the observable market prices of the loans. 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. Appraisals are obtained from state-certified appraisers and are based on certain assumptions, which may include construction or development status and the highest and best use of the property. These appraisals are reviewed by Trustmark's Appraisal Review Department to ensure they are acceptable. Appraised values are adjusted down for costs associated with asset disposal. At March 31, 2014, Trustmark had outstanding balances of $27.6 million in impaired LHFI that were specifically identified for evaluation and written down to fair value of the underlying collateral less cost to sell based on the fair value of the collateral or other unobservable input compared with $31.6 million at December 31, 2013. These specifically evaluated impaired LHFI are classified as Level 3 in the fair value hierarchy. Impaired LHFI are periodically reviewed and evaluated for additional impairment and adjusted accordingly based on the same factors identified above.

Please refer to Note 2 – Business Combinations, for financial assets and liabilities acquired, which were measured at fair value on a nonrecurring basis in accordance with GAAP.

Nonfinancial Assets and Liabilities

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

Other real estate, excluding covered other real estate, includes assets that have been acquired in satisfaction of debt through foreclosure and 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. In the determination of fair value subsequent to foreclosure, Management also considers other factors or recent developments, such as changes in market conditions from the time of valuation and anticipated sales values considering plans for disposition, which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. At March 31, 2014, Trustmark's geographic other real estate distribution is concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. The ultimate recovery of a substantial portion of the carrying amount of other real estate, excluding covered other real estate, is susceptible to changes in market conditions in these areas. Periodic revaluations are classified as Level 3 in the fair value hierarchy since assumptions are used that may not be observable in the market.

Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 3 inputs based on adjusted observable market data. Foreclosed assets measured at fair value upon initial recognition totaled $13.7 million (utilizing Level 3 valuation inputs) during the three months ended March 31, 2014, compared with $50.0 million for the same period in 2013. Foreclosed assets measured at fair value upon initial recognition for the three months ended March 31, 2013, included $41.2 million of other real estate acquired from BancTrust. In connection with the measurement and initial recognition of the foregoing foreclosed assets, Trustmark recognized charge-offs of the allowance for loan losses totaling $5.1 million and $1.3 million for the first three months of 2014 and 2013, respectively. Other than foreclosed assets measured at fair value upon initial recognition, $7.6 million of foreclosed assets were remeasured during the first three months of

2014, requiring write-downs of $1.1 million to reach their current fair values compared to $13.2 million of foreclosed assets that were remeasured during the first three months of 2013, requiring write-downs of $1.6 million.

Fair Value of Financial Instruments

FASB ASC Topic 825, "Financial Instruments," requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments can be found in Note 19 – Fair Value included in Item 8 of Trustmark's Form 10-K Annual Report for the year ended December 31, 2013.

The carrying amounts and estimated fair values of financial instruments at March 31, 2014 and December 31, 2013, are as follows ($ in thousands):

	March 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Level 2 Inputs:				
Cash and short-term investments	$423,819	$423,819	$353,014	$353,014
Securities held to maturity	1,155,569	1,154,606	1,168,728	1,150,833
Level 3 Inputs:				
Net LHFI	5,856,248	5,894,453	5,732,433	5,787,408
Net acquired loans	735,777	735,777	794,570	794,570
FDIC indemnification asset	13,487	13,487	14,347	14,347
Financial Liabilities:				
Level 2 Inputs:				
Deposits	10,122,119	10,126,897	9,859,902	9,866,118
Short-term liabilities	319,012	319,012	317,972	317,972
Long-term FHLB advances	8,341	8,358	8,458	8,474
Subordinated notes	49,912	53,783	49,904	53,387
Junior subordinated debt securities	61,856	40,206	61,856	40,206

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

The fair values of net LHFI are estimated for portfolios of loans with similar financial characteristics. For variable rate LHFI that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values of certain mortgage LHFI, such as 1-4 family residential properties, are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of other types of LHFI are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The processes for estimating the fair value of net LHFI described above does not represent an exit price under FASB ASC Topic 820, "Fair Value Measurements and Disclosures," and such an exit price could potentially produce a different fair value estimate at March 31, 2014 and December 31, 2013.

Note 17 – Derivative Financial Instruments

Derivatives Designated as Hedging Instruments

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward sales contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. These derivative instruments

are designated as fair value hedges under FASB ASC Topic 815, “Derivatives and Hedging.” The ineffective portion of changes in the fair value of the forward sales contracts and changes in the fair value of the loans designated as loans held for sale are recorded in noninterest income in mortgage banking, net. Trustmark’s off-balance sheet obligations under these derivative instruments totaled $162.6 million at March 31, 2014, with a negative valuation adjustment of $118 thousand, compared to $155.8 million, with a positive valuation adjustment of $1.9 million as of December 31, 2013.

On April 4, 2013, Trustmark entered into a forward interest rate swap contract on junior subordinated debentures with a total notional amount of $60.0 million. The interest rate swap contract was designated as a derivative instrument in a cash flow hedge under FASB ASC Topic 815, with the objective of protecting the quarterly interest payments on Trustmark’s $60.0 million of junior subordinated debentures issued to Trustmark Preferred Capital Trust I throughout the five-year period beginning December 31, 2014 and ending December 31, 2019 from the risk of variability of those payments resulting from changes in the three-month LIBOR interest rate. Under the swap, commencing on December 31, 2014, Trustmark will pay a fixed interest rate of 1.66% and receive a variable interest rate based on three-month LIBOR on a total notional amount of $60.0 million, with quarterly net settlements.

No ineffectiveness related to the interest rate swap designated as a cash flow hedge was recognized in the consolidated statements of income during the three months ended March 31, 2014. The accumulated net after-tax gain related to effective cash flow hedges included in accumulated other comprehensive loss totaled $1.1 million at March 31, 2014. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Trustmark's variable rate junior subordinated debentures. During the next twelve months, Trustmark estimates that $201 thousand will be reclassified as an increase to interest expense.

Derivatives not Designated as Hedging Instruments

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in the 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 are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of MSR. The impact of this strategy resulted in a net positive ineffectiveness of $1.9 million and $1.3 million for the quarters ended March 31, 2014 and 2013, respectively.

Trustmark also utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area. Interest rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified time period. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of forward sales contracts. Trustmark's off-balance sheet obligations under these derivative instruments totaled $95.5 million at March 31, 2014, with a positive valuation adjustment of $816 thousand, compared to $58.5 million, with a positive valuation adjustment of $126 thousand as of December 31, 2013.

Trustmark offers certain derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with third parties. Derivative transactions executed as part of this program are not designated as qualifying hedging relationships and are, therefore, carried at fair value with the change in fair value recorded in noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset. As of March 31, 2014, Trustmark had interest rate swaps with an aggregate notional amount of $347.0 million related to this program, compared to $355.9 million as of December 31, 2013.

Credit-risk-related Contingent Features

Trustmark has agreements with its financial institution counterparties that contain provisions where if Trustmark defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Trustmark could also be declared in default on its derivative obligations.

As of March 31, 2014, the termination value of interest rate swaps in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $643 thousand compared to $508 thousand as of December 31, 2013. As of March 31, 2014, Trustmark had posted collateral with a market value of $1.2 million against its obligations because of negotiated thresholds and minimum transfer amounts under these agreements. If Trustmark had breached any of these triggering provisions at March 31, 2014, it could have been required to settle its obligations under the agreements at the termination value.

Credit risk participation agreements arise when Trustmark contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. As of March 31, 2014 and

December 31, 2013, Trustmark had entered into three risk participation agreements as a beneficiary with an aggregate notional amount of $19.5 million and $19.7 million, respectively. The fair values of these risk participation agreements were immaterial at March 31, 2014 and December 31, 2013.

Tabular Disclosures

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

	March 31, 2014	December 31, 2013
Derivatives in hedging relationships		
Interest rate contracts:		
Interest rate swaps included in other assets	$1,808	$ 2,469
Forward contracts included in other liabilities	118	(1,911)
Derivatives not designated as hedging instruments		
Interest rate contracts:		
Futures contracts included in other assets	$(760)	$ (2,662)
Exchange traded purchased options included in other assets	130	83
OTC written options (rate locks) included in other assets	816	126
Interest rate swaps included in other assets	3,947	4,962
Credit risk participation agreements included in other assets	19	16
Exchange traded written options included in other liabilities	630	581
Interest rate swaps included in other liabilities	3,737	4,628

	Three Months Ended March 31,	
	2014	2013
Derivatives in hedging relationships		
Amount of gain (loss) recognized in mortgage banking, net	$2,029	$(66)
Derivatives not designated as hedging instruments		
Amount of gain (loss) recognized in mortgage banking, net	$3,276	$(215)
Amount of loss recognized in bankcard and other fees	(121)	(27)

The following table discloses the amount included in other comprehensive income for derivative instruments designated as cash flow hedges for the three months ended March 31, 2014 and 2013 ($ in thousands):

	Three Months Ended March 31,	
	2014	2013
Derivatives in cash flow hedging relationship		
Amount of loss recognized in other comprehensive income	$(408)	$ -

Certain financial instruments, including resell and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. Trustmark's interest rate swap derivative instruments are subject to master netting agreements, and therefore, eligible for offsetting in the consolidated balance sheet. Trustmark has elected to not offset any derivative instruments in its consolidated balance sheets. Information about financial instruments that are eligible for offset in the consolidated balance sheets as of March 31, 2014 and December 31, 2013 is presented in the following

tables ($ in thousands):
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Offsetting of Derivative Assets
As of March 31, 2014

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 5,755	$ -	$ 5,755	$(1,037)	$ (1,360)	$ 3,358

Offsetting of Derivative Liabilities
As of March 31, 2014

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	$ 3,737	$ -	$ 3,737	$(1,037)	$ -	$ 2,700

Offsetting of Derivative Assets
As of December 31, 2013

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount

			Position			
Derivatives	$ 7,431	$ -	$ 7,431	$(967)	$ (1,920)	$ 4,544

Offsetting of Derivative Liabilities
As of December 31, 2013

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	$ 4,628	$ -	$ 4,628	$(967)	$ -	$ 3,661

Note 18 – Segment Information

Trustmark's management reporting structure includes three segments: General Banking, Wealth Management and Insurance. General Banking is primarily responsible for all traditional banking products and services, including loans and deposits. General Banking also consists of internal operations such as Human Resources, Executive Administration, Treasury, Funds Management, Public Affairs and Corporate Finance. Wealth Management provides customized solutions for affluent customers by integrating financial services with traditional banking products and services such as private banking, money management, full-service brokerage, financial planning, personal and institutional trust and retirement services. Through Fisher Brown Bottrell Insurance, Inc. (FBBI), a wholly owned subsidiary of TNB, Trustmark's Insurance Division provides a full range of retail insurance products including commercial risk management products, bonding, group benefits and personal lines coverage.

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

The following table discloses financial information by reportable segment for the periods presented ($ in thousands):

	Three Months Ended March 31,	
	2014	2013
General Banking		
Net interest income	$93,839	$87,812
Provision for loan losses, net	(740)	(2,836)
Noninterest income	27,839	30,189
Noninterest expense	88,084	90,306
Income before income taxes	34,334	30,531
Income taxes	7,785	7,933
General banking net income	$26,549	$22,598
Selected Financial Information		
Average assets	$11,780,274	$10,658,486
Depreciation and amortization	$8,478	$8,079
Wealth Management		
Net interest income	$995	$1,098
Provision for loan losses, net	(2)	(2)
Noninterest income	8,141	6,906
Noninterest expense	6,937	5,830
Income before income taxes	2,201	2,176
Income taxes	729	723
Wealth management net income	$1,472	$1,453
Selected Financial Information		
Average assets	$73,100	$76,227
Depreciation and amortization	$48	$42
Insurance		
Net interest income	$70	$65
Noninterest income	8,098	7,244
Noninterest expense	6,597	6,009
Income before income taxes	1,571	1,300
Income taxes	589	485
Insurance net income	$982	$815
Selected Financial Information		
Average assets	$65,442	$65,254
Depreciation and amortization	$230	$259
Consolidated		
Net interest income	$94,904	$88,975
Provision for loan losses, net	(742)	(2,838)
Noninterest income	44,078	44,339
Noninterest expense	101,618	102,145
Income before income taxes	38,106	34,007
Income taxes	9,103	9,141
Consolidated net income	$29,003	$24,866

Selected Financial Information		
Average assets	$11,918,816	$10,799,967
Depreciation and amortization	$8,756	$8,380

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Note 19 – Accounting Policies Recently Adopted and Pending Accounting Pronouncements

ASU 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." Issued in January 2014, ASU 2014-04 clarifies when an "in substance repossession or foreclosure" occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans, such that all or a portion of the loan should be derecognized and the real estate property recognized. ASU 2014-04 states that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments of ASU 2014-04 also require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments of ASU 2014-04 are effective for interim and annual periods beginning after December 15, 2014, and may be applied using either a modified retrospective transition method or a prospective transition method as described in ASU 2014-04. For Trustmark, the adoption of ASU 2014-04 will be change in presentation only for the newly required disclosures and is not expect to have a significant impact to Trustmark's consolidated financial statements.

ASU 2014-01, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." Issued in January 2014, ASU 2014-01 permits reporting entities that invest in qualified affordable housing projects to elect to account for those investments using the "proportional amortization method" if certain conditions are met. Under this method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The decision to apply the proportional amortization method of accounting is an accounting policy decision and should be applied consistently to all qualifying affordable housing project investments. ASU 2014-01 should be applied retrospectively to all periods presented and is effective for annual and interim reporting periods beginning after December 15, 2014. Trustmark currently accounts for its tax credit investments utilizing the equity method of accounting and does not have a significant amount of investments in qualified affordable housing projects that qualify for the low income housing tax credit. Management will review Trustmark's investments in qualified affordable housing projects to determine if these investments meet the conditions required for using the proportional amortization method of accounting and make a decision regarding the accounting policy. The adoption of ASU 2014-01 is not expected to have a significant impact to Trustmark's consolidated financial statements.

ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)." Issued in July 2013, ASU 2013-11 provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. The exception states that to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 applies prospectively for all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or tax credit carryforward exists at the reporting date. ASU 2013-11 became effective for Trustmark's financial statements on January 1, 2014, and the adoption did not have a significant impact to Trustmark's consolidated financial statements.

ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." Issued in February 2013, ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on net income line items only for those items that are reported in their entirety in net income in the period of reclassification. For these items, entities are required to disclose the effect of the reclassification on each line item of net income that is affected by the reclassification adjustment. For items that are not reclassified in their entirety into net income, an entity is required to add a cross-reference to the note that includes additional information about the effect of the reclassification. For entities that only have reclassifications into net income in their entirety, this information may be presented either in the notes or parenthetically on the face of the statement that reports net income as long as the required information is reported in a single location. Entities that have one or more reclassification items that are not presented in their entirety in net income in the period of reclassification must present this information in the notes to the financial statements. ASU 2013-02 became effective for Trustmark's financial statements on January 1, 2013, and the adoption did not have a significant impact to Trustmark's consolidated financial statements. The required disclosures are reported in Note 15 – Shareholders' Equity.

ASU 2013-01. "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." Issued in January 2013, ASU 2013-01 clarifies that the scope of ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities," applies to derivatives accounted for in accordance with FASB ASC Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreements. ASU 2013-01 became effective for Trustmark's financial statements on January 1, 2013, and the adoption did not have a significant impact to Trustmark's consolidated financial statements. The required disclosures are reported in Note 17 – Derivatives.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following provides a narrative discussion and analysis of Trustmark Corporation's (Trustmark) financial condition and results of operations. This discussion should be read in conjunction with the unaudited consolidated financial statements and the supplemental financial data included elsewhere in this report.

Description of Business

Trustmark, a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark's principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At March 31, 2014, TNB had total assets of $12.054 billion, which represented approximately 99.97% of the consolidated assets of Trustmark.

Through TNB and its other subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through 209 offices and 3,114 full-time equivalent associates located in the states of Alabama (primarily in the central and southern regions of that state, which are collectively referred to herein as Trustmark's Alabama market), Florida (primarily in the northwest or "Panhandle" region of that state which is referred to herein as Trustmark's Florida market), Mississippi, Tennessee (in Memphis and the Northern Mississippi regions, which are collectively referred to herein as Trustmark's Tennessee market), and Texas (primarily in Houston, which is referred to herein as Trustmark's Texas market). The principal products produced and services rendered by TNB and Trustmark's other subsidiaries are as follows:

Trustmark National Bank

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

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

Mortgage Banking – TNB provides mortgage banking services, including construction financing, production of conventional and government insured mortgages, secondary marketing and mortgage servicing. At March 31, 2014, TNB's mortgage loan portfolio totaled approximately $1.002 billion, while its portfolio of mortgage loans serviced for others, including Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA), totaled approximately $5.514 billion.

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

Wealth Management and Trust Services – TNB offers specialized services and expertise in the areas of wealth management, trust, investment and custodial services for corporate and individual customers. These services include the administration of personal trusts and estates as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. TNB also provides corporate trust and institutional custody,

securities brokerage, financial and estate planning, retirement plan services as well as life insurance and other risk management services provided by FBBI. TNB's wealth management division is also served by Trustmark Investment Advisors, Inc. (TIA), a Securities and Exchange Commission (SEC)-registered investment adviser. TIA provides customized investment management services for TNB customers. At March 31, 2014, Trustmark held assets under management and administration of $11.138 billion and brokerage assets of $1.489 billion.

New Market Tax Credits (NMTC) – TNB provides an intermediary vehicle for the provision of loans or investments in Low-Income Communities (LICs) through its subsidiary Southern Community Capital, LLC (SCC). SCC is a Mississippi single member limited liability company and a certified Community Development Entity (CDE). The primary mission of SCC is to provide investment capital for LICs, as defined by Section 45D of the Internal Revenue Code, or Low-Income Persons (LIPs). As a certified CDE, SCC is able to apply to the Community Development Financial Institutions Fund (CDFI Fund) to receive NMTC allocations to offer investors in exchange for equity investments in qualified projects.

Capital Trusts

Trustmark Preferred Capital Trust I (the Trust) is a Delaware trust affiliate formed in 2006 to facilitate a private placement of $60.0 million in trust preferred securities. As defined in applicable accounting standards, the Trust is considered a variable interest entity for which Trustmark is not the primary beneficiary. Accordingly, the accounts of the Trust are not included in Trustmark's consolidated financial statements.

Executive Overview

Recent Economic and Industry Developments

The economy has continued to show moderate signs of improvement; however, lingering economic concerns resulting from the cumulative weight of soft U.S. labor markets, slowing growth in emerging markets and uncertainty resulting from the timing and implementation by the Federal Reserve Board of its recently consummated tapering of its quantitative easing program remain. The passage of a two-year budget agreement in the U.S., which excluded large tax increases or spending cuts, the recent passage by Congress of an increase in the Federal government's debt ceiling, suggestions that Europe may be emerging from its economic recession, and strengthening business and consumer confidence should reduce economic uncertainty during 2014. However, doubts surrounding the sustainability of these signs of improvement are expected to persist for some time, especially as the magnitude of economic distress facing the local markets in which Trustmark operates places continued pressure on asset growth, asset quality and earnings, with the potential for undermining the stability of the banking organizations that serve these markets.

Severe winter weather was responsible for lower than expected economic activity across the United States in January and February 2014. Estimated employment growth in the United States for the first quarter of 2014 was reported to average approximately 178,000 jobs created per month. However, the unemployment rate remained at 6.7% due to the increase in the number of people who reportedly rejoined the labor force. Consumer confidence reported improvement in March as consumer expectations improved after declines in February. Consumers reportedly were moderately more optimistic about future job prospects and the overall economy but less optimistic about income growth. In the April 2014 "Summary of Commentary on Current Economic Conditions by Federal Reserve Districts," the twelve Federal Reserve Districts' reports suggested overall economic activity continued to expand at a moderate pace during the first quarter reporting period. According to the Federal Reserve Districts' reports, consumer spending in most districts increased as weather conditions improved and foot traffic returned, and most districts reported improvements in auto sales, tourism and manufacturing during the first quarter reporting period. According to the Federal Reserve Districts' reports, strengthening loan demand and improvements in credit quality during the first quarter of 2014 were reported by the majority of the twelve districts, and while most districts reported mixed or declining residential mortgage borrowing, overall the districts reported growth in commercial loan volumes and commercial mortgage lending.

While interest rates remain low by historical standards, recent increases in rates reduced the demand for mortgage refinancings, leading to a drop in mortgage origination and sales activity in the first three months of 2014. In the Federal Deposit Insurance Corporation's (FDIC) fourth quarter 2013 "Quarterly Banking Profile," (published February 26, 2014) insured institutions reported, in the aggregate, that lower expenses for loan-loss provisions and a reduction in litigation reserves contributed to 16.9% year-over-year increase in quarterly net income despite the year-over-year decline in quarterly revenues primarily due to reduced mortgage lending activity. The FDIC insured institutions also reported in the fourth quarter 2013 "Quarterly Banking Profile," in the aggregate, a 9.6% increase in net income for the full year 2013 compared to the previous year as loan-loss provisions lowered for the fourth consecutive year to the smallest annual total since 2006. The FDIC insured institutions also reported in the fourth quarter 2013 "Quarterly Banking Profile," in the aggregate, the lowest fourth-quarter total for net charge-offs since 2006 as charge-offs in all major loan categories had year-over-year declines, improved noncurrent levels across all major loan categories, declines in loan-loss reserves for the fifteenth consecutive quarter as net charge-offs taken out of reserves exceed the provisions added to reserves, and increased equity capital as the industry's core capital (leverage) ratio edged up to its

highest level in the twenty-three years that the current capital standards have been in effect.

Financial Highlights

Trustmark continued to achieve solid financial results in the first quarter of 2014, reflecting the fourth consecutive quarter of growth in the loans held for investment (LHFI) portfolio as well as continued improvement in credit quality. Trustmark reported net income of $29.0 million, or basic and diluted earnings per share of $0.43 in the first quarter of 2014, compared to $24.9 million, or basic and diluted earnings per share of $0.38 in the first quarter of 2013. Trustmark's performance during the quarter ended March 31, 2014, produced a return on average tangible equity of 12.93% and a return on average assets of 0.99% compared to a return on average tangible equity of 10.82% and a return on average assets of 0.93% during the quarter ended March 31, 2013. Trustmark's Board of Directors declared a quarterly cash dividend of $0.23 per share. The dividend is payable June 15, 2014, to shareholders of record on June 1, 2014.

Net income for the first quarter of 2014 increased $4.1 million, or 16.6%, compared to the same time period in 2013. As discussed in greater detail below, the $5.9 million, or 6.7%, increase in net interest income, primarily resulting from increases in interest and fees on acquired loans and taxable interest on securities, was partially offset by a $2.2 million, or 72.9%, decrease in the negative provision for loan losses, LHFI. The slight decline in noninterest income, principally due to declines in mortgage banking, net, was more than offset by the decrease in noninterest expense, which primarily resulted from the negative year-over-year comparison of non-routine transaction expenses from the acquisition of BancTrust Financial Group, Inc. (BancTrust). Please see the section captioned "Results of Operations" below for a more complete overview of Trustmark's financial performance for the first three months of 2014.

Trustmark's provision for loan losses, LHFI, for the three months ended March 31, 2014 totaled a negative $805 thousand, a decrease of $2.2 million, or 72.9%, when compared to a negative provision for loan losses, LHFI of $3.0 million for the three months ended March 31, 2013. The negative provision during the first quarter of 2014 reflects an increase in the reserve for commercial LHFI, which was more than offset by an increase in the net recovery provision, changes in the quantitative and qualitative reserve factors, and improved credit quality. Please see the section captioned "Provision for Loan Losses, LHFI," for additional information regarding the provision for loan losses, LHFI. At March 31, 2014, nonperforming assets, excluding acquired loans and covered other real estate, totaled $175.5 million, an increase of $3.8 million, or 2.2%, compared to December 31, 2013, and total nonaccrual LHFI were $64.0 million, representing a decrease of $1.2 million, or 1.9%, relative to December 31, 2013. Total net recoveries of LHFI for the three months ended March 31, 2014 and 2013 were $1.9 million and $1.1 million, respectively, an increase of $745 thousand, or 65.9%.

Management has continued to carefully monitor the impact of illiquidity in the financial markets, values of securities and other assets, loan performance, default rates and other financial and macro-economic indicators, in order to navigate the challenging economic environment. Trustmark has continued to experience improvements in credit quality on LHFI. As of March 31, 2014, classified LHFI balances decreased $20.2 million, or 8.6%, while criticized LHFI balances decreased $63.2 million, or 20.2%, when compared to balances at March 31, 2013. The volume of classified and criticized LHFI decreased year-over-year primarily as a result of noted improvement in repayment capacity of borrowers and subsequent upgrade of those credits to a pass category as well as repayment of several credits of significant size.

TNB did not make significant changes to its loan underwriting standards during the first three months of 2014. TNB's willingness to make loans to qualified applicants that meet its traditional, prudent lending standards has not changed. TNB adheres to interagency guidelines regarding concentration limits of commercial real estate loans. As a result of the economic downturn, TNB remains cautious in granting credit involving certain categories of real estate as well as making exceptions to its loan policy.

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

At close of business on December 31, 2013, Trustmark consolidated its wholly owned subsidiary Somerville Bank & Trust Company (Somerville) into TNB. TNB and Somerville were both wholly owned subsidiaries of Trustmark; as such, the merger represented a business reorganization between affiliates under common control. Trustmark anticipates that this consolidation will enhance productivity and efficiency with elimination of duplicate functions and operating systems as well as support revenue growth with the addition of a broader product line for Somerville's customers. Trustmark is committed to investments to support profitable revenue growth as well as reengineering and efficiency opportunities to enhance shareholder value.

Critical Accounting Policies

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

Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. There have been no significant changes in Trustmark's critical accounting policies during the first three months of 2014.

Recent Legislative Developments

In early July 2013, the Federal Reserve Board (FRB), FDIC and the Office of the Comptroller of the Currency (OCC) jointly promulgated a final rule revising regulatory capital requirements to address perceived shortcomings in the existing regulatory capital requirements that became evident during the recent financial crisis by implementing capital requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and international capital regulatory standards by the Basel Committee. The new final capital rule adopts a new common equity Tier 1 requirement, higher minimum Tier 1 requirements, new risk-weight calculation methods for the "standardized" denominator, revised regulatory components and calculations, required capital buffers above the minimum risk-based capital requirements for certain banking organizations, and more generally restructures the agencies' capital rules. Many of the final rules apply to all depository institutions, and bank holding companies with assets of $500 million or more, and savings and loan holding companies. The final rules also addressed the relevant provisions of the Dodd-Frank Act, including removal of references to credit ratings in the capital rules and implementation of a capital floor, known as the "Collins Amendment." Importantly, the new final capital rule does not change the current treatment of residential mortgage exposures. Also, banking organizations that are not subject to the advanced approaches capital rules can opt not to incorporate most amounts reported as accumulated other comprehensive income (loss) (AOCI) in the calculation of their regulatory capital, which is consistent with the treatment of AOCI under the current rules. Finally, smaller depository institution holding companies (those with assets less than $15 billion) and most mutual holding companies will be allowed to continue to count as Tier 1 capital most existing trust preferred securities that were issued prior to May 19, 2010 rather than phasing such securities out of regulatory capital. Trustmark currently has outstanding such securities that it counts as Tier 1 capital. Most banking organizations will be required to apply the new capital rules on January 1, 2015. It is expected that banking organizations subject to the new final capital rules, including Trustmark, will be required to hold a greater amount of capital and a greater amount of common equity than they are currently required to hold. Management is currently evaluating the impact the new final capital rules will have on Trustmark.

On January 18, 2013, the Consumer Financial Protection Bureau (CFPB), FRB, FDIC, OCC, Federal Housing Finance Agency, and National Credit Union Administration, issued a final rule implementing amendments to the Truth in Lending Act (TILA) made by the Dodd-Frank Act. The final rule imposes heightened appraisal requirements for higher-priced mortgage loans and became mandatory on January 18, 2014. After notice and comment, the six agencies subsequently issued a final rule on December 12, 2013, that created exemptions from these appraisal requirements for loans of $25,000 or less, certain "streamlined" refinancings, and certain loans secured by manufactured housing. The newly final rule is expected to provide creditors with some relief from the mortgage appraisal requirements. Trustmark has implemented the appropriate policies, procedures, and training to assure compliance with these new rules. Trustmark's operations and consolidated financial statements were not impacted by the implementation of these new rules.

In October 2012, the FRB, FDIC and OCC published final rules implementing the company-run stress test requirements mandated by the Dodd-Frank Act. The final rules require institutions with average total consolidated assets between $10 billion and $50 billion to conduct an annual company-run stress test using data as of September 30 of each year under one base and at least two stress scenarios as provided by the agencies. Stress test results must be provided to the agencies by March 31 of the following year. Because Trustmark did not exceed the $10 billion threshold until February 2013, it will not be subject to these stress test requirements until September 2014, with a formal filing requirement of March 2015. Trustmark anticipates that the capital ratios, as reflected in the stress test calculations under the required stress test scenarios, will be an important factor considered by the agencies in evaluating the capital adequacy of Trustmark and TNB and whether proposed payments of dividends or stock repurchases are consistent with prudential expectations.

Selected Financial Data
($ in thousands)

	Three Months Ended March 31,	
	2014	2013
Consolidated Statements of Income		
Total interest income	$100,708	$95,455
Total interest expense	5,804	6,480
Net interest income	94,904	88,975
Provision for loan losses, LHFI	(805)	(2,968)
Provision for loan losses, acquired loans	63	130
Noninterest income	44,078	44,339
Noninterest expense	101,618	102,145
Income before income taxes	38,106	34,007
Income taxes	9,103	9,141
Net Income	$29,003	$24,866
Per Share Data		
Basic earnings per share	$0.43	$0.38
Diluted earnings per share	0.43	0.38
Cash dividends per share	0.23	0.23
Performance Ratios		
Return on average equity	8.60%	7.61%
Return on average tangible equity	12.93%	10.82%
Return on average assets	0.99%	0.93%
Net interest margin (fully taxable equivalent)	3.92%	3.98%
Credit Quality Ratios (1)		
Net charge-offs/average loans	-0.13%	-0.08%
	-0.05%	-0.21%

Provision for loan losses/average loans				
Nonperforming loans/total loans (incl LHFS*)	1.06	%	1.45	%
Nonperforming assets/total loans (incl LHFS*) plus ORE**	2.85	%	3.44	%
Allowance for loan losses/total loans (excl LHFS*)	1.14	%	1.39	%

March 31,	2014	2013
Consolidated Balance Sheets		
Total assets	$12,057,054	$11,850,515
Securities	3,538,010	3,619,749
Loans held for investment and acquired loans (including LHFS*)	6,790,529	6,790,262
Deposits	10,122,119	9,909,431
Total shareholders' equity	1,373,895	1,352,946
Stock Performance		
Market value - close	$25.35	$25.01
Book value	20.37	20.15
Tangible book value	14.36	13.96

Capital Ratios				
Total equity/total assets	11.39	%	11.42	%
Tangible equity/tangible assets	8.31	%	8.20	%
Tangible equity/risk-weighted assets	12.08	%	11.92	%
Tier 1 leverage ratio	9.14	%	9.83	%
Tier 1 common risk-based capital ratio	12.37	%	11.79	%
Tier 1 risk-based capital ratio	13.11	%	12.97	%
Total risk-based capital ratio	14.34	%	14.42	%

(1)- Excludes Acquired Loans and Covered Other Real Estate.
*- LHFS is Loans Held for Sale.
**- ORE is Other Real Estate.

Non-GAAP Financial Measures

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

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

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

		Three Months Ended March 31,			
		2014		2013	
TANGIBLE EQUITY					
AVERAGE BALANCES					
Total shareholders' equity		$1,367,663		$1,325,508	
Less: Goodwill		(372,720	)	(324,902	)
Identifiable intangible assets		(41,015	)	(35,187	)
Total average tangible equity		$953,928		$965,419	
PERIOD END BALANCES					
Total shareholders' equity		$1,373,895		$1,352,946	
Less: Goodwill		(365,500	)	(366,366	)
Identifiable intangible assets		(39,697	)	(49,361	)
Total tangible equity	(a)	$968,698		$937,219	
TANGIBLE ASSETS					
Total assets		$12,057,054		$11,850,515	
Less: Goodwill		(365,500	)	(366,366	