

TRUSTMARK CORP
Form 10-Q
May 06, 2011

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

Form 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission file number 000-03683

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

Mississippi
(State or other jurisdiction of incorporation or organization)

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

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

39201
(Zip Code)

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

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

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

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.

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

Accelerated filer
Smaller reporting company

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

As of April 25, 2011, there were 63,991,264 shares outstanding of the registrant's common stock (no par value).

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited)	
	March 31, 2011	December 31, 2010
Assets		
Cash and due from banks (noninterest-bearing)	\$ 193,087	\$ 161,544
Federal funds sold and securities purchased under reverse repurchase agreements	1,726	11,773
Securities available for sale (at fair value)	2,309,704	2,177,249
Securities held to maturity (fair value: \$113,828-2011; \$145,143-2010)	110,054	140,847
Loans held for sale	112,981	153,044
Loans	5,964,089	6,060,242
Less allowance for loan losses	93,398	93,510
Net loans	5,870,691	5,966,732
Premises and equipment, net	141,524	142,289
Mortgage servicing rights	53,598	51,151
Goodwill	291,104	291,104
Identifiable intangible assets	15,532	16,306
Other real estate	89,198	86,704
Other assets	325,263	355,159
Total Assets	\$ 9,514,462	\$ 9,553,902
Liabilities		
Deposits:		
Noninterest-bearing	\$ 1,668,104	\$ 1,636,625
Interest-bearing	5,758,170	5,407,942
Total deposits	7,426,274	7,044,567
Federal funds purchased and securities sold under repurchase agreements	550,919	700,138
Short-term borrowings	154,585	425,343
Subordinated notes	49,814	49,806
Junior subordinated debt securities	61,856	61,856
Other liabilities	110,785	122,708
Total Liabilities	8,354,233	8,404,418
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 63,987,064 shares - 2011;		
63,917,591 shares - 2010	13,333	13,318
Capital surplus	260,297	256,675
Retained earnings	898,222	890,917
Accumulated other comprehensive loss, net of tax	(11,623)	(11,426)
Total Shareholders' Equity	1,160,229	1,149,484

Total Liabilities and Shareholders' Equity	\$9,514,462	\$9,553,902
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See notes to consolidated financial statements.

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Trustmark Corporation and Subsidiaries

Consolidated Statements of Income
(\$ in thousands except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Interest Income		
Interest and fees on loans	\$76,270	\$81,597
Interest on securities:		
Taxable	19,992	19,735
Tax exempt	1,383	1,417
Interest on federal funds sold and securities purchased under reverse repurchase agreements	8	8
Other interest income	332	383
Total Interest Income	97,985	103,140
Interest Expense		
Interest on deposits	9,719	13,904
Interest on federal funds purchased and securities sold under repurchase agreements	338	226
Other interest expense	1,553	1,592
Total Interest Expense	11,610	15,722
Net Interest Income	86,375	87,418
Provision for loan losses	7,537	15,095
Net Interest Income After Provision for Loan Losses	78,838	72,323
Noninterest Income		
Service charges on deposit accounts	11,907	12,977
Insurance commissions	6,512	6,837
Wealth management	5,986	5,355
Bank card and other fees	6,475	5,880
Mortgage banking, net	4,722	6,072
Other, net	762	879
Securities gains, net	7	369
Total Noninterest Income	36,371	38,369
Noninterest Expense		
Salaries and employee benefits	44,036	42,854
Services and fees	10,270	10,255
Net occupancy - premises	5,073	5,034
Equipment expense	5,144	4,303
FDIC assessment expense	2,750	3,147
ORE/Foreclosure expense	3,213	3,061
Other expense	9,532	7,707
Total Noninterest Expense	80,018	76,361
Income Before Income Taxes	35,191	34,331
Income taxes	11,178	10,876

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Net Income	\$24,013	\$23,455
Earnings Per Common Share		
Basic	\$0.38	\$0.37
Diluted	\$0.37	\$0.37
Dividends Per Common Share	\$0.23	\$0.23

See notes to consolidated financial statements.

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

	2011	2010
Balance, January 1,	\$1,149,484	\$1,110,060
Net income per consolidated statements of income	24,013	23,455
Other comprehensive income:		
Net change in fair value of securities available for sale	(950)	5,583
Net change in defined benefit plans	753	505
Comprehensive income	23,816	29,543
Common stock dividends paid	(14,866)	(14,817)
Common stock issued-net, long-term incentive plans:		
Stock options	401	2,296
Restricted stock	(620)	(592)
Excess tax benefit from stock-based compensation arrangements	976	807
Compensation expense, long-term incentive plans	1,038	1,292
Other	-	(60)
Balance, March 31,	\$1,160,229	\$1,128,529

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2011	2010
Operating Activities		
Net income	\$24,013	\$23,455
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Provision for loan losses	7,537	15,095
Depreciation and amortization	5,853	5,798
Net amortization of securities	1,559	429
Securities gains, net	(7)	(369)
Gains on sales of loans, net	(3,101)	(3,755)
Deferred income tax benefit	(355)	(165)
Proceeds from sales of loans held for sale	242,755	250,012
Purchases and originations of loans held for sale	(195,964)	(197,088)
Originations and sales of mortgage servicing rights	(3,480)	(3,761)
Net decrease in other assets	29,455	18,425
Net decrease in other liabilities	(9,728)	(10,000)
Other operating activities, net	1,480	4,263
Net cash provided by operating activities	100,017	102,339
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	30,806	17,122
Proceeds from calls and maturities of securities available for sale	147,958	86,620
Proceeds from sales of securities available for sale	-	12,453
Purchases of securities available for sale	(283,517)	(108,094)
Net decrease (increase) in federal funds sold and securities purchased under reverse repurchase agreements	10,047	(5,225)
Net decrease in loans	68,952	118,184
Purchases of premises and equipment	(2,487)	(935)
Proceeds from sales of premises and equipment	374	1
Proceeds from sales of other real estate	15,399	11,827
Net cash (used in) provided by investing activities	(12,468)	131,953
Financing Activities		
Net increase (decrease) in deposits	381,707	(41,412)
Net decrease in federal funds purchased and securities sold under repurchase agreements	(149,219)	(81,321)
Net decrease in short-term borrowings	(274,385)	(120,799)
Common stock dividends	(14,866)	(14,817)
Common stock issued-net, long-term incentive plans	(219)	1,704
Excess tax benefit from stock-based compensation arrangements	976	807
Net cash used in financing activities	(56,006)	(255,838)
Increase (decrease) in cash and cash equivalents	31,543	(21,546)

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Cash and cash equivalents at beginning of period	161,544	213,519
Cash and cash equivalents at end of period	\$193,087	\$191,973

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 over 150 offices in Florida, Mississippi, Tennessee and Texas.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2010 annual report on Form 10-K.

Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting period and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2011 actual conditions could vary from those anticipated, which could affect our results of operations and financial condition. The allowance for loan losses, the valuation of other real estate, the fair value of mortgage servicing rights, the valuation of goodwill and other identifiable intangibles, the status of contingencies and the fair values of financial instruments are particularly subject to change. Actual results could differ from those estimates.

Note 2 – Business Combinations

On April 15, 2011, Trustmark announced the acquisition of Heritage Banking Group, a 90-year old financial institution headquartered in Carthage, Mississippi, from the Federal Deposit Insurance Corporation. At March 31, 2011, Heritage had approximately \$228.3 million in assets and \$205.0 million in deposits. Substantially all loans and other real estate acquired are covered by a loss share agreement in which the FDIC will reimburse Trustmark for 80.0% of the losses incurred. The assets covered by loss sharing agreements total approximately \$156.0 million. Trustmark purchased Heritage for an asset discount of approximately \$23.0 million and a deposit premium of 0.15%. The acquisition is expected to generate an estimated one-time \$4.0 million to \$6.0 million after-tax gain in the second quarter of 2011.

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):

March 31, 2011	Securities Available for Sale				Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. Government agency obligations								
Issued by U.S. Government agencies	\$ 10	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ -
Issued by U.S. Government sponsored agencies	139,080	196	(3,108)	136,168	-	-	-	-
Obligations of states and political subdivisions	158,945	3,805	(841)	161,909	49,129	2,728	(2)	51,855
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	11,423	656	-	12,079	5,650	135	-	5,785
Issued by FNMA and FHLMC	423,785	1,057	(7,820)	417,022	-	-	-	-
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,449,533	39,919	(2,580)	1,486,872	52,272	928	-	53,200
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA,	94,292	1,921	(569)	95,644	3,003	1	(16)	2,988

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FHLMC or GNMA								
Total	\$ 2,277,068	\$ 47,554	\$ (14,918)	\$ 2,309,704	\$ 110,054	\$ 3,792	\$ (18)	\$ 113,828
December 31, 2010								
U.S. Government agency obligations								
Issued by U.S.								
Government agencies	\$ 12	\$ -	\$ -	\$ 12	\$ -	\$ -	\$ -	\$ -
Issued by U.S.								
Government sponsored agencies	124,093	114	(2,184)	122,023	-	-	-	-
Obligations of states and political subdivisions	159,418	2,259	(2,040)	159,637	53,246	2,628	(10)	55,864
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by								
GNMA	11,719	723	-	12,442	6,058	171	-	6,229
Issued by FNMA and FHLMC								
	432,162	1,188	(6,846)	426,504	-	-	-	-
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA								
	1,361,339	43,788	(4,311)	1,400,816	78,526	1,503	-	80,029
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA								
	54,331	2,007	(523)	55,815	3,017	6	(2)	3,021
Total	\$ 2,143,074	\$ 50,079	\$ (15,904)	\$ 2,177,249	\$ 140,847	\$ 4,308	\$ (12)	\$ 145,143

Temporarily Impaired Securities

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

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	Less than 12 Months		12 Months or More		Total	
	Estimated	Gross Unrealized	Estimated	Gross Unrealized	Estimated	Gross Unrealized
March 31, 2011	Fair Value	(Losses)	Fair Value	(Losses)	Fair Value	(Losses)
U.S. Government agency obligations						
Issued by U.S. Government sponsored agencies	\$ 85,994	\$ (3,108)	\$ -	\$ -	\$ 85,994	\$ (3,108)
Obligations of states and political subdivisions	36,755	(837)	306	(6)	37,061	(843)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Issued by FNMA and FHLMC	320,938	(7,820)	-	-	320,938	(7,820)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	227,871	(2,580)	-	-	227,871	(2,580)
Commercial mortgage-backed securities						
Issued by FNMA and FHLMC	28,716	(585)	-	-	28,716	(585)
Total	\$ 700,274	\$ (14,930)	\$ 306	\$ (6)	\$ 700,580	\$ (14,936)

December 31, 2010						
U.S. Government agency obligations						
Issued by U.S. Government sponsored agencies						
Obligations of states and political subdivisions						
Mortgage-backed securities						
Residential mortgage pass-through securities						
Issued by FNMA and FHLMC						
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA						
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA						
Total						
Issued by U.S. Government sponsored agencies	\$ 86,917	\$ (2,184)	\$ -	\$ -	\$ 86,917	\$ (2,184)
Obligations of states and political subdivisions	65,523	(2,045)	307	(5)	65,830	(2,050)
Residential mortgage pass-through securities						
Issued by FNMA and FHLMC	312,787	(6,846)	-	-	312,787	(6,846)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	232,279	(4,311)	-	-	232,279	(4,311)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	21,073	(525)	-	-	21,073	(525)
Total	\$ 718,579	\$ (15,911)	\$ 307	\$ (5)	\$ 718,886	\$ (15,916)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, Management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of Trustmark to hold the security for a period of time sufficient to allow for any anticipated recovery

in fair value. The unrealized losses shown above are primarily due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at March 31, 2011. There were no other-than-temporary impairments for the three months ended March 31, 2011 and 2010.

Security Gains and Losses

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

	Three Months Ended March 31,	
	2011	2010
Available for Sale		
Proceeds from sales of securities	\$ -	\$ 12,453
Gross realized gains	-	364
Held to Maturity		
Proceeds from calls of securities	\$ 1,290	\$ 1,705
Gross realized gains	7	5

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, 2011, by contractual maturity, are shown below (\$ in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$13,052	\$13,132	\$3,302	\$3,334
Due after one year through five years	44,071	45,253	15,512	16,015
Due after five years through ten years	215,508	214,369	21,914	23,314
Due after ten years	25,404	25,333	8,401	9,192
	298,035	298,087	49,129	51,855
Mortgage-backed securities	1,979,033	2,011,617	60,925	61,973
Total	\$2,277,068	\$2,309,704	\$110,054	\$113,828

Note 4 – Loans and Allowance for Loan Losses

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

	March 31, 2011	December 31, 2010
Loans secured by real estate:		
Construction, land development and other land loans	\$ 552,956	\$ 583,316
Secured by 1-4 family residential properties	1,737,018	1,732,056
Secured by nonfarm, nonresidential properties	1,488,711	1,498,108
Other	216,986	231,963
Commercial and industrial loans	1,082,258	1,068,369
Consumer loans	357,870	402,165
Other loans	528,290	544,265
Loans	5,964,089	6,060,242
Less allowance for loan losses	93,398	93,510
Net loans	\$ 5,870,691	\$ 5,966,732

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The following table details loans individually and collectively evaluated for impairment at March 31, 2011 and December 31, 2010 (\$ in thousands):

	March 31, 2011		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$44,151	\$ 508,805	\$552,956
Secured by 1-4 family residential properties	24,825	1,712,193	1,737,018
Secured by nonfarm, nonresidential properties	32,237	1,456,474	1,488,711
Other	5,648	211,338	216,986
Commercial and industrial loans	17,159	1,065,099	1,082,258
Consumer loans	1,516	356,354	357,870
Other loans	1,254	527,036	528,290
Total	\$126,790	\$ 5,837,299	\$5,964,089

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

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total loans. At March 31, 2011, Trustmark's geographic loan distribution was concentrated primarily in its Florida, Mississippi, Tennessee and Texas markets. A substantial portion of construction, land development and other land loans are secured by real estate in markets in which Trustmark is located. Accordingly, the ultimate collectability of a substantial portion of these loans and the recovery of a substantial portion of the carrying amount of other real estate owned, are susceptible to changes in market conditions in these areas.

Nonaccrual/Impaired Loans

At March 31, 2011 and December 31, 2010, the carrying amounts of nonaccrual loans, which are considered for impairment analysis, were \$126.8 million and \$142.9 million, respectively. When a loan is deemed impaired, the full difference between the carrying amount of the loan and the most likely estimate of the asset's fair value less cost to sell, is charged-off. At March 31, 2011 and December 31, 2010, specifically evaluated impaired loans totaled \$87.1 million and \$97.6 million, respectively. In addition, these specifically evaluated impaired loans had a related allowance of \$7.9 million and \$8.3 million at the end of the respective periods. Specific charge-offs related to impaired loans totaled \$5.3 million and \$9.8 million while the provisions charged to net income for these loans totaled \$1.0 million and \$1.8 million for the first three months of 2011 and 2010, respectively.

At March 31, 2011 and December 31, 2010, nonaccrual loans, not specifically impaired and written down to fair value less cost to sell, totaled \$39.7 million and \$45.3 million, respectively. In addition, these nonaccrual loans had allocated allowance for loan losses of \$3.2 million and \$3.5 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired or nonaccrual loans for each of the periods ended March 31, 2011 and 2010.

At March 31, 2011 and December 31, 2010, loans classified as troubled debt restructurings (TDRs) totaled \$22.8 million and \$19.2 million, respectively. For TDRs, Trustmark had a related loan loss allowance of \$1.9 million at the end of each respective period. Specific charge-offs related to TDRs totaled \$631 thousand for the three months ended March 31, 2011. Loans that are TDRs are charged down to the most likely fair value estimate less cost to sell, which would approximate net realizable value.

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At March 31, 2011 and December 31, 2010, the carrying amount of impaired loans consisted of the following (\$ in thousands):

	March 31, 2011					
	Unpaid Principal Balance	Total Loans with No Related Allowance Recorded	Total Loans with an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	\$ 64,745	\$ 15,688	\$ 28,464	\$ 44,152	\$ 6,242	\$ 50,991
Secured by 1-4 family residential properties	34,482	4,212	20,612	24,824	680	27,568
Secured by nonfarm, nonresidential properties	40,155	23,113	9,123	32,236	1,415	30,625
Other	6,554	5,042	606	5,648	41	5,902
Commercial and industrial loans	18,527	9,053	8,106	17,159	2,670	16,632
Consumer loans	1,859	-	1,517	1,517	18	1,815
Other loans	2,752	990	264	1,254	53	1,324
Total	\$ 169,074	\$ 58,098	\$ 68,692	\$ 126,790	\$ 11,119	\$ 134,857

	December 31, 2010					
	Unpaid Principal Balance	Total Loans with No Related Allowance Recorded	Total Loan is with an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land loans	\$ 81,945	\$ 33,201	\$ 24,630	\$ 57,831	\$ 6,782	\$ 69,817
Secured by 1-4 family residential properties	41,475	3,082	27,230	30,312	1,745	30,888
Secured by nonfarm, nonresidential properties	35,679	18,582	10,431	29,013	1,580	23,535
Other	7,009	5,042	1,113	6,155	95	4,126
Commercial and industrial loans	17,413	9,172	6,935	16,107	1,514	11,369
Consumer loans	2,420	-	2,112	2,112	23	1,544
Other loans	2,868	1,107	286	1,393	58	765
Total	\$ 188,809	\$ 70,186	\$ 72,737	\$ 142,923	\$ 11,797	\$ 142,044

Credit Quality Indicators

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

measures are unique to commercial loans.

In addition to monitoring portfolio credit quality 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 financial statement exceptions, total policy exceptions, collateral exceptions and violations of law as shown below:

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

Commercial Credits

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

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

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

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

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

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

In addition to the ongoing internal risk rate monitoring described above, Trustmark conducts monthly credit quality reviews (CQR) as well as semi-annual analysis and stress testing on all residential real estate development credits and non-owner occupied commercial real estate (CRE) credits of \$1.0 million or more as described below:

- Trustmark's Credit Quality Review Committee meets monthly and performs the following functions: detailed review and evaluation of all loans of \$100 thousand or more that are either delinquent thirty days or more or on nonaccrual, including determination of appropriate risk ratings, accrual status, and appropriate servicing officer; review of risk rate changes for relationships of \$100 thousand or more; quarterly review of all nonaccruals less than \$100 thousand to determine whether the credit should be charged off, returned to accrual, or remain in nonaccrual status; monthly/quarterly review of continuous action plans for all credits rated seven or worse for relationships of \$100 thousand or more; monthly review of all commercial charge-offs of \$25 thousand or more for the preceding month.
- Residential real estate developments - a development project analysis is performed on all projects regardless of size. Performance of the development is assessed through an evaluation of the number of lots remaining, the payout ratios, and the loan-to-value ratios. Results are stress tested as to absorption and price of lots. This information is reviewed by each senior credit officer for that market to determine the need for any risk rate or accrual status changes.
- Non-owner occupied commercial real estate – a cash flow analysis is performed on all projects with an outstanding balance of \$1.0 million or more. In addition, credits are stress tested for vacancies and rate sensitivity. Confirmation is obtained that guarantor's financial statements are current, taxes have been paid, and that there are no other issues that need to be addressed. This information is reviewed by each senior credit officer for that market to determine the need for any risk rate or accrual status changes.

Consumer Credits

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

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

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

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

	March 31, 2011				
	Pass - Categories 1-6	Special Mention - Category 7	Commercial Loans Substandard - Category 8	Doubtful - Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other land loans	\$ 323,839	\$ 39,218	\$ 132,171	\$ -	\$ 495,228
Secured by 1-4 family residential properties	115,732	577	22,084	224	138,617
Secured by nonfarm, nonresidential properties	1,345,584	14,062	127,679	431	1,487,756
Other	201,610	317	6,856	-	208,783
Commercial and industrial loans	994,624	27,545	54,545	1,409	1,078,123
Consumer loans	647	-	-	-	647
Other loans	519,273	207	3,885	135	523,500
	\$ 3,501,309	\$ 81,926	\$ 347,220	\$ 2,199	\$ 3,932,654

	Consumer Loans					Total Loans
	Current	Past Due 30-89 Days	Past Due Greater Than 90 days	Nonaccrual	Subtotal	
Loans secured by real estate:						
Construction, land development and other land loans	\$ 55,367	\$ 416	\$ -	\$ 1,945	\$ 57,728	\$ 552,956
Secured by 1-4 family residential properties	1,564,509	13,788	2,530	17,574	1,598,401	1,737,018
Secured by nonfarm, nonresidential properties	955	-	-	-	955	1,488,711
Other	8,121	48	-	34	8,203	216,986
Commercial and industrial loans	4,030	72	-	33	4,135	1,082,258
Consumer loans	344,666	8,815	2,226	1,516	357,223	357,870
Other loans	4,639	151	-	-	4,790	528,290
	\$ 1,982,287	\$ 23,290	\$ 4,756	\$ 21,102	\$ 2,031,435	\$ 5,964,089

December 31, 2010

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

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

Past Due Loans

Loans past due 90 days or more totaled \$24.8 million and \$19.4 million at March 31, 2011 and December 31, 2010, respectively. Included in these amounts are \$19.8 million and \$15.8 million, respectively, of serviced loans eligible for repurchase, which are fully guaranteed by GNMA. GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings. During December of 2010, Trustmark purchased approximately \$53.9 million of GNMA serviced loans, which were subsequently sold to a third party. Trustmark will retain the servicing for these loans, which are fully guaranteed by FHA/VA. Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first three months of 2011.

The following table provides an aging analysis of past due loans and nonaccrual loans by class at March 31, 2011 and December 31, 2010 (\$ in thousands):

	March 31, 2011					
	30-89 Days	Past Due Greater than 90 Days (1)	Total	Nonaccrual	Current Loans	Total Loans
Loans secured by real estate:						
Construction, land development and other land loans	\$ 15,873	\$ -	\$ 15,873	\$ 44,151	\$ 492,932	\$ 552,956
Secured by 1-4 family residential properties	15,755	2,699	18,454	24,825	1,693,739	1,737,018
Secured by nonfarm, nonresidential properties	13,448	30	13,478	32,237	1,442,996	1,488,711
Other	2,587	16	2,603	5,648	208,735	216,986
Commercial and industrial loans	1,725	39	1,764	17,159	1,063,335	1,082,258
Consumer loans	8,817	2,226	11,043	1,516	345,311	357,870
Other loans	599	-	599	1,254	526,437	528,290
Total past due loans	\$ 58,804	\$ 5,010	\$ 63,814	\$ 126,790	\$ 5,773,485	\$ 5,964,089

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

	December 31, 2010		
	Past Due	Current	Total

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	30-89 Days	Greater than 90 Days (1)	Total	Nonaccrual	Loans	Loans
Loans secured by real estate:						
Construction, land development and other land loans	\$ 1,651	\$ -	\$ 1,651	\$ 57,831	\$ 523,834	\$ 583,316
Secured by 1-4 family residential properties	11,654	1,278	12,932	30,313	1,688,811	1,732,056
Secured by nonfarm, nonresidential properties	9,149	31	9,180	29,013	1,459,915	1,498,108
Other	441	-	441	6,154	225,368	231,963
Commercial and industrial loans	4,178	39	4,217	16,107	1,048,045	1,068,369
Consumer loans	13,741	2,260	16,001	2,112	384,052	402,165
Other loans	67	-	67	1,393	542,805	544,265
Total past due loans	\$ 40,881	\$ 3,608	\$ 44,489	\$ 142,923	\$ 5,872,830	\$ 6,060,242

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

Allowance for Loan Losses

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

	Three Months Ended March 31,	
	2011	2010
Balance at January 1,	\$93,510	\$ 103,662
Loans charged-off	(11,132)	(19,775)
Recoveries	3,483	2,661
Net charge-offs	(7,649)	(17,114)
Provision for loan losses	7,537	15,095
Balance at March 31,	\$93,398	\$ 101,643

The following tables detail the balance in the allowance for loan losses by portfolio segment at March 31, 2011 (\$ in thousands):

	Allowance for Loan Losses				
	Balance				Balance
	January 1, 2011	Charge-offs	Recoveries	Provision for Loan Losses	March 31, 2011
Loans secured by real estate:					
Construction, land development and other land loans	\$35,562	\$(3,494)	\$-	\$4,436	\$36,504
Secured by 1-4 family residential properties	13,051	(2,348)	173	1,117	11,993
Secured by nonfarm, nonresidential properties	20,980	(1,530)	-	1,760	21,210
Other	1,582	(204)	-	92	1,470
Commercial and industrial loans	14,775	(827)	643	500	15,091
Consumer loans	5,400	(1,722)	1,660	(504)	4,834
Other loans	2,160	(1,007)	1,007	136	2,296
Total	\$93,510	\$(11,132)	\$3,483	\$7,537	\$93,398

	Allowance for Loan Losses Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$ 6,242	\$ 30,262	\$ 36,504
Secured by 1-4 family residential properties	680	11,313	11,993
Secured by nonfarm, nonresidential properties	1,415	19,795	21,210
Other	41	1,429	1,470
Commercial and industrial loans	2,670	12,421	15,091
Consumer loans	18	4,816	4,834
Other loans	53	2,243	2,296
Total	\$ 11,119	\$ 82,279	\$ 93,398

Note 5 – Mortgage Banking

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

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

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and exchange-traded option contracts, to achieve a fair value return that offsets the changes in fair value of MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. Changes in the fair value of these exchange-traded derivative instruments, including administrative costs, are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of MSR. The MSR fair value represents the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the total hedge cost to the changes in the fair value of the MSR asset attributable to interest rate changes. The impact of this strategy resulted in a net positive ineffectiveness of \$263 thousand and \$1.0 million for the quarters ended March 31, 2011 and 2010, respectively. See the section captioned “Noninterest Income” in Management’s Discussion and Analysis for further analysis of mortgage banking revenues, which includes the table for net hedge ineffectiveness.

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

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	\$51,151	\$50,513
Origination of servicing assets	3,480	4,518
Disposals of mortgage loans sold serviced released	-	(757)
Change in fair value:		
Due to market changes	257	(3,067)
Due to runoff	(1,290)	(1,170)
Balance at end of period	\$53,598	\$50,037

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

Trustmark is subject to losses in its loan servicing portfolio due to loan foreclosures. For loans sold without recourse, Trustmark has obligations to either repurchase the outstanding principal balance of a loan or make the purchaser whole for the economic benefits of a loan if it is determined that the loans sold were in violation of representations or warranties made by Trustmark at the time of the sale, herein referred to as mortgage loan servicing putback expenses. Such representations and warranties typically include those made regarding loans that had missing or insufficient file documentation and/or loans obtained through fraud by borrowers or other third parties such as appraisers. The total mortgage loan servicing putback expenses incurred by Trustmark during the first three months of 2011 were \$643 thousand and were insignificant during the same time period in 2010. At March 31, 2011 and December 31, 2010, accrued mortgage loan servicing putback expenses were \$1.3 million and \$900 thousand, respectively. There is inherent uncertainty in reasonably estimating the requirement for reserves against future mortgage loan servicing putback expenses. Future putback expenses are dependent on many subjective factors, including the review procedures of the purchasers and the potential refinance activity on loans sold with servicing released and the subsequent consequences under the representations and warranties. Based on Trustmark's experience to date, and its confidence in its underwriting practices on loans sold to others, Management does not believe that a material loss related to these transactions is either probable or reasonably estimated.

Note 6 – Other Real Estate

Other real estate owned is recorded at the lower of cost or estimated fair value less the estimated cost of disposition. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan losses. At March 31, 2011, Trustmark's geographic loan distribution was concentrated primarily in its Florida, Mississippi, Tennessee and Texas markets. The ultimate recovery of a substantial portion of the carrying amount of other real estate owned is susceptible to changes in market conditions in these areas.

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

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	\$86,704	\$90,095
Additions	19,552	13,621
Disposals	(15,055)	(12,120)
Writedowns	(2,003)	(420)
Balance at end of period	\$89,198	\$91,176
Gain (Loss), net on the sale of other real estate included in other expenses	\$344	\$(293)

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

	March 31,	December
	2011	31, 2010
Construction, land development and other land properties	\$64,667	\$61,963
1-4 family residential properties	14,870	13,509
Nonfarm, nonresidential properties	656	9,820
Other real estate properties	9,005	1,412
Total other real estate	\$89,198	\$86,704

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

	March 31,	December
	2011	31, 2010
Florida	\$31,339	\$32,370
Mississippi (1)	22,084	24,181
Tennessee (2)	16,920	16,407
Texas	18,855	13,746
Total other real estate	\$89,198	\$86,704

(1) - Mississippi includes Central and Southern Mississippi Region

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

Note 7 – Deposits

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

	March 31, 2011	December 31, 2010
Noninterest-bearing demand deposits	\$1,668,104	\$1,636,625
Interest-bearing demand	1,456,055	1,474,045
Savings	2,217,596	1,809,116
Time	2,084,519	2,124,781
Total	\$7,426,274	\$7,044,567

Note 8 – Defined Benefit and Other Postretirement Benefits

Capital Accumulation Plan

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

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

	Three Months Ended March 31,	
	2011	2010
Net periodic benefit cost		
Service cost	\$137	\$137
Interest cost	1,115	1,194
Expected return on plan assets	(1,471)	(1,482)
Recognized net actuarial loss	1,037	850
Net periodic benefit cost	\$818	\$699

The acceptable range of contributions to the plan is determined each year by the plan's actuary. Trustmark's policy is to fund amounts allowable for federal income tax purposes. The actual amount of the contribution is determined based on the plan's funded status and return on plan assets as of the measurement date, which is December 31. For 2011, Trustmark's minimum required contribution is expected to be zero. For 2010, Trustmark made a voluntary contribution of \$1.9 million to improve the funded status of the plan.

Supplemental Retirement Plan

Trustmark maintains a nonqualified supplemental retirement plan covering directors who elected to defer fees, key executive officers and senior officers. The plan provides for defined death benefits and/or retirement benefits based on a participant's covered salary. Trustmark has acquired life insurance contracts on the participants covered under

the plan, which may be used to fund future payments under the plan. The measurement date for the plan is December 31. The following table presents information regarding the plan's net periodic benefit cost for the periods presented (\$ in thousands):

	Three months ended March 31,	
	2011	2010
Net periodic benefit cost		
Service cost	\$ 147	\$ 187
Interest cost	569	560
Amortization of prior service cost	59	37
Recognized net actuarial loss	124	89
Net periodic benefit cost	\$ 899	\$ 873

Note 9 – Stock and Incentive Compensation Plans

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

Stock Option Grants

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

During the first quarter of 2011, the following performance awards were granted or vested:

- On January 25, 2011, Trustmark awarded 53,863 shares of performance based restricted stock to key members of its executive management team.
- The performance-based restricted stock issued on January 22, 2008 vested on December 31, 2010. On February 22, 2011, the stock related to this grant was issued to the participants free of restriction. As a result of achieving 100% of ROATE and 100% of TSR related to the performance goals during the performance period, 75,162 excess time-vested restricted shares were awarded and will vest at December 16, 2013.
- A performance-based restricted stock award issued on January 27, 2009 also vested on December 31, 2010. On February 22, 2011, the stock related to this grant was issued to the participant free of restriction. As a result of achieving 100% of ROATE and 100% of TSR related to the performance goals during the performance period, 8,959 excess shares were awarded and will vest at May 10, 2011.

Time-Vested Awards

Trustmark's time-vested awards are granted in both employee recruitment and retention and are restricted for thirty-six months from the award dates. Time-vested awards are valued utilizing the fair value of Trustmark's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period. During the first three months of 2011, Trustmark awarded 67,989 shares of time-vested restricted stock to key members of its management team and board of directors.

Performance-Based Restricted Stock Unit Award

On January 27, 2009, Trustmark's Chairman and CEO was granted a cash-settled performance-based restricted stock unit award (the RSU award) for 23,123 units, with each unit having the value of one share of Trustmark's common stock. This award was granted in connection with an employment agreement dated November 20, 2008, that provides for in lieu of receiving an equity compensation award in 2010 or 2011, the 2009 equity compensation award to be twice the amount of a normal award, with one-half of the award being performance-based and one-half service-based. The RSU award was granted outside of the 2005 Plan in lieu of granting shares of performance-based restricted stock that would exceed the annual limit permitted to be granted under the 2005 Plan, in order to satisfy the equity compensation provisions of the employment agreement. Compensation expense for the RSU award is based on the fair value of Trustmark's stock at the end of each reporting period. The performance period for these RSUs ended on December 31, 2010. Although the award was certified on February 22, 2011, the units will not vest until May 10, 2011. As a result of achieving 100% of ROATE and 100% of TSR related to the performance goals during the performance period, 23,123 excess units were awarded and will vest on May 10, 2011.

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

	Three months ended March 31,	
	2011	2010
Compensation expense - Stock and Incentive plans:		
Stock option-based awards	\$67	\$163
Performance awards	223	251
Time-vested awards	747	878
RSU award (share price: \$23.42-2011, \$24.43-2010)	137	158
Total	\$1,174	\$1,450

Note 10 –Contingencies

Lending Related

Letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third party. Trustmark issues financial and performance standby letters of credit in the normal course of business in order to fulfill the financing needs of its customers. A financial standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral, which are followed in the lending process. At March 31, 2011 and 2010, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was \$178.2 million and \$192.1 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, 2011, the fair value of collateral held was \$57.5 million.

Legal Proceedings

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in two lawsuits related to the collapse of the Stanford Financial Group. The first is a purported class action complaint that was filed on August 23, 2009 in the

District Court of Harris County, Texas, by Peggy Roif Rotstain, Guthrie Abbott, Catherine Burnell, Steven Queyrouze, Jaime Alexis Arroyo Bornstein and Juan C. Olano, on behalf of themselves and all others similarly situated, naming TNB and four other financial institutions unaffiliated with the Company as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount of fees received by each defendant from entities controlled by R. Allen Stanford (collectively, the “Stanford Financial Group”) and (ii) damages allegedly attributable to alleged conspiracies by one or more of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud arising from the facts set forth in pending federal criminal indictments and civil complaints against Mr. Stanford, other individuals and the Stanford Financial Group. Plaintiffs have demanded a jury trial. Plaintiffs did not quantify damages. In November 2009, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. In May 2010, all defendants (including TNB) filed motions to dismiss the lawsuit, which remain pending, although the plaintiffs have yet to file any responsive briefing. Instead, the plaintiffs have sought to stay the lawsuit pending the conclusion of the federal criminal trial of R. Allen Stanford in Houston, Texas. The court has not ruled on the plaintiff’s motion to stay at this time.

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

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

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

At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that (i) the final resolution of pending legal proceedings described above will not, individually or in the aggregate, have a material impact on Trustmark's consolidated financial position or results of operations and (ii) a material adverse outcome in any such case is not reasonably possible.

Note 11 –Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted-average shares of common stock outstanding, adjusted for the effect of potentially dilutive stock awards outstanding during the period. Weighted-average antidilutive stock awards for the three months ended March 31, 2011 and 2010 totaled 1.29 million and 1.27 million, respectively, and accordingly, were excluded in determining diluted earnings per share. The following table reflects weighted-average shares used to calculate basic and diluted EPS for the periods presented (in thousands):

	Three Months Ended March 31,	
	2011	2010
Basic shares	63,950	63,743
Dilutive shares	232	190
Diluted shares	64,182	63,933

Note 12 –Statements of Cash Flows

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

	Three Months Ended March 31,	
	2011	2010
Income taxes paid	\$435	\$375
Interest expense paid on deposits and borrowings	11,378	16,543
Noncash transfers from loans to foreclosed properties	19,552	13,621

Note 13 –Shareholders' Equity

Trustmark and TNB are subject to minimum capital requirements, which are administered by various federal regulatory agencies. These capital requirements, as defined by federal guidelines, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB. As of March 31, 2011, Trustmark and TNB have exceeded all of the minimum capital standards for the parent company and its primary banking subsidiary as established by regulatory requirements. In addition, TNB has met applicable regulatory guidelines to be considered well-capitalized at March 31, 2011. To be categorized in this manner, TNB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the accompanying table. There are no significant conditions or events that have occurred since March 31, 2011, which Management believes have affected TNB's present classification.

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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, 2011:						
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	\$ 1,062,083	16.25 %	\$ 522,884	8.00 %	n/a	n/a
Trustmark National Bank	1,023,679	15.85 %	516,580	8.00 %	\$ 645,725	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	\$ 930,424	14.24 %	\$ 261,442	4.00 %	n/a	n/a
Trustmark National Bank	894,500	13.85 %	258,290	4.00 %	\$ 387,435	6.00 %
Tier 1 Capital (to Average Assets)						
Trustmark Corporation	\$ 930,424	10.10 %	\$ 276,236	3.00 %	n/a	n/a
Trustmark National Bank	894,500	9.85 %	272,361	3.00 %	\$ 453,935	5.00 %
At December 31, 2010:						
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	\$ 1,051,933	15.77 %	\$ 533,774	8.00 %	n/a	n/a
Trustmark National Bank	1,014,219	15.40 %	526,894	8.00 %	\$ 658,617	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	\$ 918,600	13.77 %	\$ 266,887	4.00 %	n/a	n/a
Trustmark National Bank	883,549	13.42 %	263,447	4.00 %	\$ 395,170	6.00 %
Tier 1 Capital (to Average Assets)						
Trustmark Corporation	\$ 918,600	10.14 %	\$ 271,867	3.00 %	n/a	n/a
Trustmark National Bank	883,549	9.89 %	267,967	3.00 %	\$ 446,612	5.00 %

Accumulated Other Comprehensive Income (Loss)

The following table presents the components of accumulated other comprehensive income (loss) and the related tax effects allocated to each component for the periods ended March 31, 2011 and 2010 (\$ in thousands):

	Before-Tax Amount	Tax Effect	Accumulated Other Comprehensive (Loss) Income
Balance, January 1, 2011	\$(18,469)	\$7,043	\$ (11,426)
Unrealized holding losses on AFS arising during period	(1,531)	585	(946)
Adjustment for net gains realized in net income	(7)	3	(4)
Pension and other postretirement benefit plans	1,219	(466)	753
Balance, March 31, 2011	\$(18,788)	\$7,165	\$ (11,623)
Balance, January 1, 2010	\$(2,596)	\$972	\$ (1,624)
Unrealized holding gains on AFS arising during period	9,411	(3,600)	5,811
Adjustment for net gains realized in net income	(369)	141	(228)
Pension and other postretirement benefit plans	818	(313)	505
Balance, March 31, 2010	\$7,264	\$(2,800)	\$ 4,464

Note 14 –Fair Value

Fair Value Measurements

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

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety is classified is based on the lowest level input that is significant to the fair value measurement in its entirety. Trustmark’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Financial Instruments Measured at Fair Value

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

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

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

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

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

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

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

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

Financial Assets and Liabilities

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

	March 31, 2011			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	\$136,178	\$-	\$136,178	\$-
Obligations of states and political subdivisions	161,909	-	161,909	-
Mortgage-backed securities	2,011,617	-	2,011,617	-
Securities available for sale	2,309,704	-	2,309,704	-
Loans held for sale	112,981	-	112,981	-
Mortgage servicing rights	53,598	-	-	53,598
Other assets - derivatives	310	237	123	(50)
Other liabilities - derivatives	2,127	1,894	233	-
	December 31, 2010			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	\$122,035	\$-	\$122,035	\$-
Obligations of states and political subdivisions	159,637	-	159,637	-
Mortgage-backed securities	1,895,577	-	1,895,577	-
Securities available for sale	2,177,249	-	2,177,249	-
Loans held for sale	153,044	-	153,044	-
Mortgage servicing rights	51,151	-	-	51,151
Other assets - derivatives	(2,247)	(2,584)	-	337
Other liabilities - derivatives	(1,581)	1,562	(3,143)	-

The changes in Level 3 assets measured at fair value on a recurring basis for the periods ended March 31, 2011 and 2010 are summarized as follows (\$ in thousands):

	MSR	Other Assets - Derivatives
Balance, January 1, 2011	\$51,151	\$337
Total net (losses) gains included in net income	(1,033)	614
Additions	3,480	-
Sales	-	(1,001)
Balance, March 31, 2011	\$53,598	\$(50)

The amount of total gains (losses) for the period included in earnings that are attributable to the change in unrealized gains or losses still held at March 31, 2011	\$257	\$(176)
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Balance, January 1, 2010	\$50,513	\$(61)
Total net (losses) gains included in net income	(4,237)	557
Additions	4,518	-
Sales	(757)	(324)
Balance, March 31, 2010	\$50,037	\$172

The amount of total (losses) gains for the period included in earnings that are attributable to the change in unrealized gains or losses still held at March 31, 2010	\$(3,067)	\$18
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Trustmark may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. Assets at March 31, 2011, which have been measured at fair value on a nonrecurring basis, include impaired loans. Loans for which it is probable Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement are considered impaired. Specific allowances for impaired loans are based on comparisons of the recorded carrying values of the loans to the present value of the estimated cash flows of these loans at each loan's original effective interest rate, the fair value of the collateral or the observable market prices of the loans. At March 31, 2011, Trustmark had outstanding balances of \$87.1 million in impaired loans that were specifically identified for evaluation and written down to fair value of the underlying collateral less cost to sell based on the fair value of the collateral or other unobservable input compared with \$97.6 million at December 31, 2010. These impaired loans are classified as Level 3 in the fair value hierarchy.

Nonfinancial Assets and Liabilities

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

Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 3 inputs based on adjusted observable market data. Foreclosed

assets measured at fair value upon initial recognition totaled \$19.6 million (utilizing Level 3 valuation inputs) during the three months ended March 31, 2011 compared with \$13.6 million for the same period in 2010. In connection with the measurement and initial recognition of the foregoing foreclosed assets, Trustmark recognized charge-offs of the allowance for possible loan losses totaling \$1.8 million and \$1.4 million for the first three months of 2011 and 2010, respectively. Other than foreclosed assets measured at fair value upon initial recognition, \$8.7 million of foreclosed assets were remeasured during the first three months of 2011, requiring write-downs of \$2.0 million to reach their current fair values compared to \$1.5 million of foreclosed assets that were remeasured during the first three months of 2010, requiring write-downs of \$420 thousand.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments at March 31, 2011 and December 31, 2010, are as follows (\$ in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and short-term investments	\$194,813	\$194,813	\$173,317	\$173,317
Securities available for sale	2,309,704	2,309,704	2,177,249	2,177,249
Securities held to maturity	110,054	113,828	140,847	145,143
Loans held for sale	112,981	112,981	153,044	153,044
Net loans	5,870,691	5,923,320	5,966,732	6,030,219
Other assets - derivatives	310	310	(2,247)	(2,247)
Financial Liabilities:				
Deposits	7,426,274	7,434,330	7,044,567	7,054,611
Short-term liabilities	705,504	705,504	1,125,481	1,125,481
Subordinated notes	49,814	49,125	49,806	48,750
Junior subordinated debt securities	61,856	34,021	61,856	30,928
Other liabilities - derivatives	2,127	2,127	(1,581)	(1,581)

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

The fair values of net loans are estimated for portfolios of loans with similar financial characteristics. For variable rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values of certain mortgage loans, such as 1-4 family residential properties, are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of other types of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The processes for estimating the fair value of net loans described above does not represent an exit price under FASB ASC Topic 820 and such an exit price could potentially produce a significantly different fair value estimate at March 31, 2011 and December 31, 2010.

A detailed description of the valuation methodologies used in estimating the fair value of financial instruments can be found in Note 16 included in Item 8 of Trustmark's Form 10-K Annual Report for the year ended December 31, 2010.

Note 15 –Derivative Financial Instruments

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

Derivatives Designated as Hedging Instruments

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. These derivative instruments are designated as fair value hedges under FASB ASC Topic 815. The ineffective portion of changes in the fair value of the forward contracts and changes in the fair value of the loans designated as loans held for sale are recorded in noninterest income in mortgage banking, net. Trustmark's off-balance sheet obligations under these derivative instruments totaled \$118.0 million at March 31, 2011, with a negative valuation adjustment of \$110 thousand, compared to \$163.0 million, with a positive valuation adjustment of \$3.1 million as of December 31, 2010.

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 offsets the changes in fair value of MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. Changes in the fair value of these exchange-traded derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of MSR. The MSR fair value represents the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the total hedge cost to the changes in the fair value of the MSR asset attributable to interest rate changes. The impact of this strategy resulted in a net positive ineffectiveness of \$263 thousand and \$1.0 million for the quarters ended March 31, 2011 and 2010, respectively.

Trustmark also utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified time period. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of forward sales contracts. Trustmark's off-balance sheet obligations under these derivative instruments totaled \$80.2 million at March 31, 2011, with a negative valuation adjustment of \$50 thousand, compared to \$67.9 million, with a positive valuation adjustment of \$337 thousand as of December 31, 2010.

Trustmark offers certain derivatives products directly to qualified commercial borrowers seeking to manage their interest rate risk. Trustmark offsets derivative transactions executed with commercial borrowers by entering into offsetting derivative 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 current period earnings. Because the derivatives have mirror-image contractual terms, the changes in fair value substantially offset. As of March 31, 2011, Trustmark had one pair of mirror-image trades with an aggregate notional amount of \$12.2 million related to this program. The fair value of these derivatives is immaterial at March 31, 2011.

Trustmark has agreements with each of its derivative counterparties that contain a provision 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, 2011, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$129 thousand. As of March 31, 2011, Trustmark has not posted collateral 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, 2011, it could have been required to settle its obligations under the agreements at the termination value.

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, 2011	December 31, 2010
Derivatives in hedging relationships		
Interest rate contracts:		
Forward contracts included in other liabilities	\$110	\$(3,143)
Derivatives not designated as hedging instruments		
Interest rate contracts:		
Futures contracts included in other assets	\$176	\$(2,897)
Exchange traded purchased options included in other assets	61	313
OTC written options (rate locks) included in other assets	(50)	337
Interest rate swaps included in other assets	123	-
Exchange traded written options included in other liabilities	1,894	1,562
Interest rate swaps included in other liabilities	123	-
	Three Months Ended March 31, 2011	2010
Derivatives in hedging relationships		
Amount of loss recognized in mortgage banking, net	\$(3,253)	\$(1,845)
Derivatives not designated as hedging instruments		
Amount of (loss) gain recognized in mortgage banking, net	\$(382)	\$4,340
Amount of gain recognized in bankcard and other fees	90	-

Note 16 –Segment Information

Trustmark's management reporting structure includes three segments: General Banking, Wealth Management and Insurance. General Banking is primarily responsible for all traditional banking products and services, including loans and deposits. 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. During 2010, Wealth Management provided life insurance and other risk management services through TRMK Risk Management, Inc. (TRMI), a wholly owned subsidiary of Trustmark National Bank who engaged in individual insurance product sales as a broker of life and long-term care insurance for Wealth Management customers. On December 30, 2010, TRMI was merged into Fisher Brown Bottrell Insurance, Inc. (FBBI), another wholly owned subsidiary of TNB. All previous products and services provided to Wealth Management customers are being provided by FBBI in 2011. Through FBBI, Trustmark's Insurance Division provides a full range of retail insurance products including commercial risk management products, bonding, group benefits and personal lines coverage. As a result of the changes discussed above, certain immaterial reclassifications have been made to the prior year amounts in order to be in conformity with the current year.

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

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

	Three Months Ended March 31,	
	2011	2010
General Banking		
Net interest income	\$ 85,241	\$ 86,312
Provision for loan losses	7,540	15,088
Noninterest income	23,815	26,049
Noninterest expense	68,820	65,577
Income before income taxes	32,696	31,696
Income taxes	10,304	9,947
General banking net income	\$ 22,392	\$ 21,749
Selected Financial Information		
Average assets	\$ 9,362,090	\$ 9,186,250
Depreciation and amortization	\$ 5,418	\$ 5,332
Wealth Management		
Net interest income	\$ 1,073	\$ 1,051
Provision for loan losses	(3)	7
Noninterest income	6,071	5,434
Noninterest expense	5,787	5,001
Income before income taxes	1,360	1,477
Income taxes	456	495
Wealth management net income	\$ 904	\$ 982
Selected Financial Information		
Average assets	\$ 82,465	\$ 92,637
Depreciation and amortization	\$ 62	\$ 68
Insurance		
Net interest income	\$ 61	\$ 55
Provision for loan losses	-	-
Noninterest income	6,485	6,886
Noninterest expense	5,411	5,783
Income before income taxes	1,135	1,158
Income taxes	418	434
Insurance net income	\$ 717	\$ 724
Selected Financial Information		
Average assets	\$ 64,751	\$ 55,951
Depreciation and amortization	\$ 373	\$ 398
Consolidated		
Net interest income	\$ 86,375	\$ 87,418
Provision for loan losses	7,537	15,095
Noninterest income	36,371	38,369
Noninterest expense	80,018	76,361

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Income before income taxes	35,191	34,331
Income taxes	11,178	10,876
Consolidated net income	\$ 24,013	\$ 23,455
Selected Financial Information		
Average assets	\$ 9,509,306	\$ 9,334,838
Depreciation and amortization	\$ 5,853	\$ 5,798

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

ASU 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” ASU 2011-02 clarifies when a loan modification or restructuring is considered a troubled debt restructuring (TDR). This ASU amends ASC 310-40 to include the indicators from ASC 470-60 that a lender should consider in determining whether a borrower is experiencing financial difficulties (e.g., debtor default, debtor bankruptcy, or concerns about the future as a going concern are all indicators of financial difficulty). It further clarifies that a borrower could be experiencing financial difficulty even if it is not currently in default but default is probable in the foreseeable future. The guidance in the rest of the ASU addresses whether the lender has granted a concession to the borrower. The ASU also amends ASC 310-40 to clarify that a lender is explicitly precluded from performing the borrower’s effective interest rate test, described in ASC 470, to determine whether a modification is a TDR. For TDR identification and disclosure purposes, the guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. For newly identified TDRs that have occurred since the beginning of the earliest period presented and that remain outstanding in the period of adoption, the effect, if any, of the change in the method of calculating impairment under the loss contingency guidance of ASC 450-20 to that in ASC 310-10 is to be reflected in the period of adoption (e.g., the third quarter of 2011 for a calendar-year-end public entity). Adoption of ASU 2011-02 is not expected have a significant impact on Trustmark’s consolidated financial statements.

ASU 2010-28, “When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” In December 2010, the FASB issued ASU 2010-28 which modifies Step 1 of the goodwill impairment test under FASB ASC Topic 350, “Intangibles -Goodwill and Other,” for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors in determining whether an interim goodwill impairment test between annual test dates is necessary. The ASU allows an entity to use either the equity or enterprise valuation premise to determine the carrying amount of a reporting unit. ASU 2010-28 became effective for Trustmark’s financial statements on January 1, 2011 and the adoption did not have a significant impact on Trustmark’s consolidated financial statements.

ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” In July 2010, the FASB issued ASU 2010-20, which requires Trustmark to provide a greater level of disaggregated information about the credit quality of loans and the allowance for loan losses. This ASU also requires Trustmark to disclose additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. ASU 2011-01, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU 2010-20,” temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of the then proposed ASU 2011-02, which is discussed above. ASU 2010-20 became effective for Trustmark’s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for Trustmark’s financial statements beginning on January 1, 2011. The required disclosures are reported in Note 4 – Loans and Allowance for Loan Losses.

ASU 2010-06, “Improving Disclosures about Fair Value Measurements.” In January 2010, the FASB issued ASU 2010-06, which requires additional disclosures related to the transfers in and out of fair value hierarchy and the activity of Level 3 financial instruments. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value

hierarchy. ASU 2010-06 became effective for Trustmark's financial statements on January 1, 2011 and is reported in Note 14 – Fair Value.

Trustmark Corporation (Trustmark), a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark's principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At March 31, 2011, TNB had total assets of \$9.4 billion, which represents over 98% of the consolidated assets of Trustmark.

Through TNB and its other subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through approximately 150 offices and 2,489 full-time equivalent associates located in the states of Mississippi, Tennessee (in Memphis and the Northern Mississippi region, which is collectively referred to herein as Trustmark's Tennessee market), Florida (primarily in the northwest or "Panhandle" region of that state which is referred to herein as Trustmark's Florida 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, 2011, TNB's mortgage loan portfolio totaled approximately \$1.1 billion, while its portfolio of mortgage loans serviced for others, including, FNMA, FHLMC and GNMA, totaled approximately \$4.4 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. Prior to July 30, 2010, TNB provided these services through The Bottrell Insurance Agency, Inc. (Bottrell), which is based in Jackson, Mississippi, and Fisher-Brown, Incorporated (Fisher-Brown), headquartered in Pensacola, Florida. Effective July 30, 2010, Fisher-Brown was merged into Bottrell, which was renamed Fisher Brown Bottrell Insurance, Inc. (FBBI), a Mississippi corporation and subsidiary of TNB. FBBI will maintain the trade names of Bottrell and Fisher Brown and will offer services through divisions under these respective names. Financial results of FBBI will be reported as the combined results of the prior subsidiaries.

Wealth Management and Trust Services – TNB offers specialized services and expertise in the areas of wealth management, trust, investment and custodial services for corporate and individual customers. These services include the administration of personal trusts and estates as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. TNB also provides corporate trust and institutional custody, securities brokerage, financial and estate planning, retirement plan services as well as life insurance and other risk management services provided by TRMK Risk Management, Inc. (TRMI). TRMI engaged in individual insurance product sales as a broker of life and long-term care insurance for wealth management customers. On December 30, 2010, TRMI was merged into FBBI, another wholly-owned subsidiary of TNB. All previous products and services provided to wealth management customers are provided by FBBI beginning in 2011. TNB's wealth management division is also served by Trustmark Investment Advisors, Inc. (TIA), a Securities and Exchange Commission (SEC)-registered investment adviser. TIA provides customized investment management services for TNB customers and also serves as investment advisor to The Performance Funds, a proprietary family of mutual funds. At March 31, 2011, Trustmark held assets under management and administration of \$7.6 billion and brokerage assets of \$1.3 billion.

Somerville Bank & Trust Company

Somerville Bank & Trust Company (Somerville), headquartered in Somerville, Tennessee, provides banking services in the eastern Memphis metropolitan statistical area (MSA) through five offices. At March 31, 2011, Somerville had total assets of \$191.4 million.

Capital Trusts

Trustmark Preferred Capital Trust I (Trustmark Trust) is a Delaware trust affiliate formed in 2006 to facilitate a private placement of \$60.0 million in trust preferred securities. Republic Bancshares Capital Trust I (Republic Trust) is a Delaware trust affiliate acquired as the result of Trustmark's 2006 acquisition of Republic Bancshares of Texas, Inc. Republic Trust was formed to facilitate the issuance of \$8.0 million in trust preferred securities. As defined in applicable accounting standards, both Trustmark Trust and Republic Trust are considered variable interest entities for which Trustmark is not the primary beneficiary. Accordingly, the accounts of both trusts are not included in Trustmark's consolidated financial statements. As previously discussed, on October 7, 2010, upon receipt of approval from the Federal Reserve Bank of Atlanta, the trust preferred securities of the Republic Trust were redeemed at par plus accrued interest and the related junior subordinated debt securities were repaid. This redemption reduced Trustmark's Tier 1 leverage ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio for December 31, 2010, by 0.09%, 0.12% and 0.12%, respectively.

Executive Overview

There have been many signs that the economy is recovering; however, the recovery remains fragile and is still threatened by weak labor markets, household and business uncertainty, tight credit conditions, rising oil prices and political turmoil in Libya and other parts of the Middle East. The effects of the financial crisis and recession are expected to persist for some time, especially as the magnitude of economic distress facing local markets places continued pressure on asset quality and earnings, with the potential for undermining the stability of the banking organizations that serve these markets. The US economy has now experienced six consecutive quarters of positive growth since the recession officially ended in the middle of 2009. Growth now appears to be settling into a trend-level pace for 2011.

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. To reduce exposure to certain loan categories, Management has continued to reduce certain loan classifications, including construction, land development and other land loans and indirect auto loans. During the first three months of 2011, Trustmark and TNB's capital ratios continued to exceed the minimum levels required to be ranked well-capitalized.

TNB did not make significant changes to its loan underwriting standards during the first three months of 2011. TNB's willingness to make loans to qualified applicants that meet its traditional, prudent lending standards has not changed. However, TNB has revised its concentration limits of commercial real estate loans, which adhere to the most recent interagency guidelines. As a result, TNB has been cautious in granting credit involving certain categories of real estate, particularly in Florida. Furthermore, in the current economic downturn, TNB makes fewer exceptions to its loan policy as compared to prior periods.

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

Heritage Banking Group Acquisition

On April 15, 2011, Trustmark announced the acquisition of Heritage Banking Group, a 90-year old financial institution headquartered in Carthage, Mississippi, from the Federal Deposit Insurance Corporation. At March 31, 2011, Heritage had approximately \$228.3 million in assets and \$205.0 million in deposits. Substantially all loans and other real estate acquired are covered by a loss share agreement in which the FDIC will reimburse Trustmark for 80.0% of the losses incurred. The assets covered by loss sharing agreements total approximately \$156.0 million. Trustmark purchased Heritage for an asset discount of approximately \$23.0 million and a deposit premium of 0.15%. The acquisition is expected to generate an estimated one-time \$4.0 million to \$6.0 million after-tax gain in the second quarter of 2011.

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 estimates during the first three months of 2011.

Recent Legislative Developments

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) into law. The Dodd-Frank Act represents very broad and complex legislation that enacts sweeping changes to the financial services industry that will have significant regulatory and legal consequences for banks now and for years to come. The more significant provisions of the Dodd-Frank Act include the following:

- Creates the Financial Stability Oversight Council, which will identify, monitor and address systemic risks posed by large and complex banks and nonbank entities as well as certain products and services.
- Requires application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.
- Changes the assessment base for federal deposit insurance from the amount of insured deposits to average consolidated assets less average tangible equity. The Dodd-Frank Act increases the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% of estimated insurable deposits, or the comparable percentage of the assessment base by September 30, 2020. The FDIC must offset the effect of the increase in the minimum reserve ratio on insured depository institutions with total consolidated assets of less than \$10 billion.
- Makes permanent the \$250,000 limit for federal deposit insurance and provides unlimited federal deposit insurance until December 31, 2012 for noninterest-bearing demand transaction accounts at all insured depository institutions.
- Directs the Federal banking regulatory agencies to make capital requirements countercyclical – meaning that additional capital will be required in times of economic expansion, but less capital will be required during periods of economic downturn.
- Requires a bank holding company to be well-capitalized and well-managed in order to be approved for an interstate bank acquisition. In addition, the appropriate federal banking agency must determine that the resulting bank will continue to be well-capitalized and well-managed after the transaction.
- Repeals the prohibition on payments of interest by banks on demand deposit accounts held by businesses, beginning July 21, 2011.
- Imposes comprehensive regulation of the over-the-counter derivatives market, which includes certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.
- Implements structural changes in the issuance of certain asset-backed securities to require risk retention by securitizers and originators at a default level of up to 5% to promote the credit quality of the assets being securitized.
- Implements corporate governance revisions intended to enhance shareholder understanding of executive compensation, to impose independence standards upon outside compensation consultants and to increase shareholder involvement in the compensation process. Also provides that federal bank regulators shall issue enhanced reporting requirements for incentive-based compensation of any “covered financial institution,” and that federal bank regulators shall prescribe regulations prohibiting any incentive-based payment arrangement that encourages inappropriate risk-taking by the covered financial institution by paying any executive officer, employee, director or principal shareholder of the covered financial institution “excessive compensation, fees, or benefits” or that “could lead to material loss to the covered financial institution.”
- Centralizes responsibility for consumer financial protection by creation of the Consumer Financial Protection Bureau (CFPB), which will be responsible for issuing rules, orders and guidance implementing federal consumer financial laws. If and when the bank’s consolidated assets exceed \$10 billion, the CFPB will become the exclusive regulator of the bank and all of its affiliates for consumer protection purposes. Until that time, the CFPB will have limited jurisdiction over the bank and its affiliate’s operations, with the exclusive enforcement authority resting with the bank’s primary federal banking regulator, and the CFPB’s role limited to requiring reports and participating in examinations with the primary federal banking regulator.
- Amends the Electronic Fund Transfer Act to authorize the Federal Reserve to issue regulations regarding any interchange fee that an issuer may receive or charge for an electronic debit card transaction. Requires that fees must be reasonable and proportional to the cost incurred by the issuer with respect to the transaction.
- Increases the potential for state intervention in the operations of federally chartered depository institutions by narrowing the circumstances in which preemption of state law may apply and by providing statutory recognition of a role for state law enforcement authorities in regard to federally chartered depository institutions.
- Implements mortgage reforms by including provisions, which require mortgage originators to act in the best interests of consumers and to take steps to seek to ensure that consumers will have the capability to repay loans that they obtain. Also creates incentives for lenders to offer loans that better protect the interests of consumers and provide additional protection for borrowers under high cost loans.

As the details of the Dodd-Frank Act turn into specific regulatory requirements, there will be business impacts across a myriad of industries, not just banking. Some of those impacts are readily anticipated such as the change to interchange fees, which can be found in the Bank Card and Other Fees section of Noninterest Income found later in this document. However, other impacts are subtle and do not stem directly from language in the new law. Many of these more subtle impacts will likely only emerge after months and perhaps years of further analysis and evaluation. In addition, certain provisions that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Finally, implementation of certain significant provisions of the Dodd-Frank Act will occur over a two-to-three year period. Because many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, it is difficult to anticipate the potential impact on Trustmark and its customers. It is clear, however, that the implementation of the Dodd-Frank Act will require Management to invest significant time and resources to evaluate the potential impact of this Act. Management will continue to evaluate this impact as more details regarding the implementation of these provisions become available.

Financial Highlights

Trustmark reported net income of \$24.0 million in the first quarter of 2011, which represented basic and diluted earnings per common share of \$0.38 and \$0.37, respectively. Trustmark's performance during the quarter produced a return on average tangible common equity of 11.65% and a return on average assets of 1.02%. Trustmark's Board of Directors declared a quarterly cash dividend of \$0.23 per common share. The dividend is payable June 15, 2011, to shareholders of record on June 1, 2011.

Net income for the three months ended March 31, 2011 increased \$558 thousand, or 2.4%, compared to the same time period in 2010. The increase was the result of a decline in the loan loss provision of \$7.6 million partially offset by a decline in noninterest income of \$2.0 million and growth in noninterest expense of \$3.7 million. For additional information on the changes in noninterest income and noninterest expense, please see accompanying sections included in Results of Operations.

At March 31, 2011, nonperforming assets totaled \$216.0 million, a decrease of \$13.6 million, or 5.9%, compared to December 31, 2010, and total nonaccrual loans were \$126.8 million, representing a decrease of \$16.1 million relative to December 31, 2010. Total net charge-offs for the three months ended March 31, 2011 were \$7.6 million compared to total net charge-offs of \$17.1 million for the same time period in 2010.

An acceleration or significantly extended deterioration in loan performance and default levels, a significant increase in foreclosure activity, a material decline in the value of Trustmark's assets (including loans and investment securities), or any combination of more than one of these trends could have a material adverse effect on Trustmark's financial condition or results of operations.

Selected Financial Data
(\$ in thousands)

	Three Months Ended March 31,			
	2011		2010	
Consolidated Statements of Income				
Total interest income	\$	97,985	\$	103,140
Total interest expense		11,610		15,722
Net interest income		86,375		87,418
Provision for loan losses		7,537		15,095
Noninterest income		36,371		38,369
Noninterest expense		80,018		76,361
Income before income taxes		35,191		34,331
Income taxes		11,178		10,876
Net Income	\$	24,013	\$	23,455
Common Share Data				
Basic earnings per share	\$	0.38	\$	0.37
Diluted earnings per share		0.37		0.37
Cash dividends per share		0.23		0.23
Performance Ratios				
Return on average common equity		8.40	%	8.47
Return on average tangible common equity		11.65	%	11.98
Return on average total equity		8.40	%	8.47
Return on average assets		1.02	%	1.02
Net interest margin (fully taxable equivalent)		4.30	%	4.42
Credit Quality Ratios				
Net charge-offs/average loans		0.51	%	1.08
Provision for loan losses/average loans		0.50	%	0.95
Nonperforming loans/total loans (incl LHFS*)		2.09	%	2.61
Nonperforming assets/total loans (incl LHFS*) plus ORE**		3.50	%	3.99
Allowance for loan losses/total loans (excl LHFS*)		1.57	%	1.65
March 31,		2011		2010
Consolidated Balance Sheets				
Total assets	\$	9,514,462	\$	9,293,215
Securities		2,419,758		1,922,453
Loans (including LHFS*)		6,077,070		6,347,560
Deposits		7,426,274		7,147,053
Common shareholders' equity		1,160,229		1,128,529
Common Stock Performance				

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Market value - close	\$	23.42	\$	24.43
Common book value		18.13		17.68
Tangible common book value		13.34		12.82

Capital Ratios

Total equity/total assets		12.19	%	12.14	%
Common equity/total assets		12.19	%	12.14	%
Tangible equity/tangible assets		9.27	%	9.11	%
Tangible common equity/tangible assets		9.27	%	9.11	%
Tangible common equity/risk-weighted assets		13.06	%	12.15	%
Tier 1 leverage ratio		10.10	%	9.81	%
Tier 1 common risk-based capital ratio		13.32	%	12.14	%
Tier 1 risk-based capital ratio		14.24	%	13.15	%
Total risk-based capital ratio		16.25	%	15.15	%

* - 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 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.

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Less:	Qualifying tier 1 capital	(60,000)	(68,000)
	Total tier 1 common capital	(e) \$ 870,424	\$ 818,171
	Tier 1 common risk-based capital ratio	(e)/(c) 13.32 %	12.14 %

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

Results of Operations

Net Interest Income

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

Net interest income-FTE for the three months ended March 31, 2011 decreased \$745 thousand when compared with the same time period in 2010. The growth in average earning asset balances, coupled with lower funding costs, produced a relatively stable net interest income – FTE. The net interest margin decreased 12 basis points to 4.30% for the first three months of 2011, compared with the same time period in 2010. The decrease in net interest margin is primarily a result of a downward repricing of fixed rate assets as well as changes to Trustmark's asset mix as lower yielding securities supplemented declines in higher yielding loan balances. The impact of this was partially offset by declines in deposit costs, mostly within certificates of deposits.

Average interest-earning assets for the first three months of 2011 were \$8.483 billion, compared with \$8.314 billion for the same time period in 2010, an increase of \$169.1 million. The growth in average earning assets was primarily due to an increase in average total securities of \$475.2 million, or 25.8%, during the first three months of 2011. The overall yield on securities decreased 95 basis points when compared with the same time period in 2010 due to the run-off of higher yielding securities replaced at lower yields. The increase in securities was offset by a decrease in average total loans of \$305.6 million, or 4.8%, during the first three months of 2011. This decrease reflects Trustmark's on-going efforts to reduce exposure to construction and land development lending, the decision in prior years to discontinue indirect auto financing, as well as limited demand for loans. During the first three months of 2011, interest and fees on loans-FTE decreased \$5.0 million, or 6.0%, due to lower average loan balances while the yield on loans fell slightly to 5.25% compared to 5.32% during the same time period in 2010. As a result of these factors, interest income-FTE decreased \$4.9 million, or 4.6%, when the first three months of 2011 is compared with the same time period in 2010. The impact of these changes is also illustrated by the decline in the yield on total earning assets, which fell from 5.19% for the first three months of 2010 to 4.86% for the same time period in 2011, a decrease of 33 basis points.

Average interest-bearing liabilities for the first three months of 2011 totaled \$6.612 billion compared with \$6.590 billion for the same time period in 2010, a slight increase of \$22.2 million, or 0.3%. During the first three months of 2011, average interest-bearing deposits increased \$3.4 million, or 0.1%, while the combination of federal funds purchased, securities sold under repurchase agreements and other borrowings increased by \$18.7 million, or 1.9%. The overall yield on interest-bearing liabilities declined 26 basis points during the first three months of 2011 when compared with the same time period in 2010, primarily due to a reduction in the costs of certificates of deposit. As a result of these factors, total interest expense for the first three months of 2011 decreased \$4.1 million, or 26.2%, when compared with the same time period in 2010.

Yield/Rate Analysis Table
(\$ in thousands)

	Three Months Ended March 31,					
	2011			2010		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Federal funds sold and securities purchased						
under reverse repurchase						
agreements	\$ 8,359	\$ 8	0.39 %	\$ 10,438	\$ 8	0.31 %
Securities - taxable	2,148,212	19,992	3.77 %	1,693,105	19,735	4.73 %
Securities - nontaxable	172,020	2,128	5.02 %	151,919	2,180	5.82 %
Loans (including loans held						
for sale)	6,107,025	79,116	5.25 %	6,412,671	84,127	5.32 %
Other earning assets	47,851	332	2.81 %	46,199	383	3.36 %
Total interest-earning						
assets	8,483,467	101,576	4.86 %	8,314,332	106,433	5.19 %
Cash and due from banks	222,380			216,305		
Other assets	899,524			910,401		
Allowance for loan losses	(96,065)			(106,200)		
Total Assets	\$ 9,509,306			\$ 9,334,838		
Liabilities and Shareholders'						
Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 5,598,458	9,719	0.70 %	\$ 5,595,034	13,904	1.01 %
Federal funds purchased and securities sold						
under repurchase agreements	647,881	338	0.21 %	600,826	226	0.15 %
Other borrowings	366,116	1,553	1.72 %	394,431	1,592	1.64 %
Total interest-bearing						
liabilities	6,612,455	11,610	0.71 %	6,590,291	15,722	0.97 %
Noninterest-bearing demand						
deposits	1,620,554			1,535,209		
Other liabilities	116,399			85,982		
Shareholders' equity	1,159,898			1,123,356		
Total Liabilities and						
Shareholders' Equity	\$ 9,509,306			\$ 9,334,838		
Net Interest Margin		89,966	4.30 %		90,711	4.42 %
Less tax equivalent						
adjustment		3,591			3,293	
Net Interest Margin per						
Consolidated						
Statements of Income		\$ 86,375			\$ 87,418	

Provision for Loan Losses

The provision for loan losses is determined by Management as the amount necessary to adjust the allowance for loan losses to a level, which, in Management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, potential problem loans, criticized loans, net charge-offs or recoveries and growth in the loan portfolio among other factors. Accordingly, the amount of the provision reflects both the necessary increases in the allowance for loan losses related to newly identified criticized loans, as well as the actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools. As shown in the table below, the provision for loan losses for the first three months of 2011 totaled \$7.5 million, or 0.50% of average loans, compared with \$15.1 million, or 0.95% of average loans, for the same time period in 2010. Reduced loan provisioning during the first three months of 2011 was a result of decreased levels of criticized loans, lower net charge-offs, adequate reserves established in prior years for both new and existing impaired loans and a more stabilized economy coupled with a smaller overall loan portfolio.

Provision for Loan Losses

(\$ in thousands)	Three Months Ended	
	March 31,	
	2011	2010
Florida	\$3,024	\$5,501
Mississippi (1)	1,071	3,748
Tennessee (2)	1,619	1,314
Texas	1,823	4,532
Total provision for loan losses	\$7,537	\$15,095

(1) - Mississippi includes Central and Southern Mississippi Regions

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

Trustmark continues to devote significant resources to managing credit risks resulting from the slowdown in commercial developments of residential real estate. Management believes that the construction and land development portfolio is appropriately risk rated and adequately reserved based on current conditions.

See the section captioned "Loans and Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses, which includes the table of nonperforming assets.

Noninterest Income

Trustmark's noninterest income continues to play an important role in improving net income and total shareholder value and represents 29.6% and 30.3% of total revenue, before securities gains, net for the first three months of 2011 and 2010, respectively. Total noninterest income before securities gains, net for the first three months of 2011 decreased \$1.6 million compared to the same time period in 2010. The comparative components of noninterest income for the periods ended March 31, 2011 and 2010 are shown in the accompanying table:

Noninterest Income
(\$ in thousands)

	Three Months Ended March 31,			
	2011	2010	\$ Change	% Change
Service charges on deposit accounts	\$11,907	\$12,977	\$(1,070)	-8.2%
Insurance commissions	6,512	6,837	(325)	-4.8%
Wealth management	5,986	5,355	631	11.8%
Bank card and other fees	6,475	5,880	595	10.1%
Mortgage banking, net	4,722	6,072	(1,350)	-22.2%
Other, net	762	879	(117)	-13.3%
Total Noninterest Income before securities gains, net	36,364	38,000	(1,636)	-4.3%
Securities gains, net	7	369	(362)	-98.1%
Total Noninterest Income	\$36,371	\$38,369	\$(1,998)	-5.2%

n/m - percentage changes greater than +/- 100% are not considered meaningful

Service Charges on Deposit Accounts

Service charges on deposit accounts during the first three months of 2011 totaled \$11.9 million, a decline of \$1.1 million from the same time period in 2010. This decline was principally due to a reduction in NSF fees of \$942 thousand and reflected the impact of regulatory changes.

Trustmark expects final guidance from the OCC in the second quarter of 2011, which will clarify their regulatory position as it pertains to overdraft programs. Trustmark expects that the impact of this guidance, which addresses several items including posting order and number of occurrences, could reduce noninterest income by an estimated \$1.5 to \$2.5 million for 2011, depending on when the changes are implemented during 2011. Management is currently evaluating Trustmark's product structure and services to offset the potential impact of these recent regulatory developments.

Insurance Commissions

Insurance commissions were \$6.5 million during the first three months of 2011 compared with \$6.8 million for the same time period in 2010. The decline in insurance commissions experienced during the first three months of 2011 was primarily due to lower commission volume on commercial property and casualty policies. Insurance commission revenues continue to face pressure from falling premium prices for similar insurable risks. Furthermore, the recessionary economy has greatly suppressed demand for insurance coverage by businesses for their inventories and equipment, workers' compensation and general liability, and has also forced companies to downsize or close.

Wealth Management

Wealth management income totaled \$6.0 million for the first three months of 2011 compared with \$5.4 million for the same time period in 2010. Wealth management consists of income related to investment management, trust and brokerage services. The growth in wealth management income during the first three months of 2011 is largely attributed to improved market conditions as well as growth in retirement planning services and brokerage activities. At March 31, 2011 and 2010, Trustmark held assets under management and administration of \$7.6 billion and \$7.3 billion, respectively, and brokerage assets of \$1.3 billion and \$1.2 billion, respectively.

Bank Card and Other Fees

Bank card and other fees totaled \$6.5 million during the first three months of 2011 compared with \$5.9 million for the same time period in 2010. Bank card and other fees consist primarily of fees earned on bank card products as well as fees on various bank products and services and safe deposit box fees. The increase was primarily the result of growth in fees earned on bank card products due to increased consumer utilization.

The Dodd-Frank Act amends the Electronic Fund Transfer Act to authorize the Federal Reserve to issue regulations regarding any interchange fee that an issuer may receive or charge for an electronic debit card transaction and is expected to be effective July 21, 2011. The interchange fees must be “reasonable and proportional” to the cost incurred by the issuer with respect to the transaction. If this legislation regarding interchange fees is implemented as written and within the estimated timeframe, Trustmark anticipates the impact could reduce noninterest income by an estimated \$4.0 to \$6.0 million during 2011. However, legislation has been introduced in Congress that could delay implementation for a year while the Federal Reserve, the FDIC, Office of the Comptroller of the Currency and the National Credit Union Administration analyze all of the costs associated with debit transactions, including the effect on consumers, debit-card issuers and merchants. Management is currently evaluating Trustmark’s product structure and services to offset the potential impact of this legislation.

Mortgage Banking, Net

Net revenues from mortgage banking were \$4.7 million during the first three months of 2011 compared with \$6.1 million for the same time period in 2010. As shown in the accompanying table, net mortgage servicing income increased to \$3.6 million for the first three months of 2011 compared to \$3.4 million for the same time period in 2010. Loans serviced for others totaled \$4.4 billion at March 31, 2011 compared with \$4.3 billion at March 31, 2010.

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

The following table illustrates the components of mortgage banking revenues included in noninterest income in the accompanying income statements:

Mortgage Banking Income
(\$ in thousands)

	Three Months Ended March 31, 2011			
	2011	2010	\$ Change	% Change
Mortgage servicing income, net	\$3,614	\$3,449	\$165	4.8 %
Change in fair value-MSR from runoff	(1,290)	(1,170)	(120)	-10.3 %
Gain on sales of loans, net	3,101	3,755	(654)	-17.4 %
Other, net	(966)	(1,002)	36	3.6 %
Mortgage banking income before hedge ineffectiveness	4,459	5,032	(573)	-11.4 %
Change in fair value-MSR from market changes	257	(3,067)	3,324	n/m
Change in fair value of derivatives	6	4,107	(4,101)	-99.9 %
Net positive hedge ineffectiveness	263	1,040	(777)	-74.7 %
Mortgage banking, net	\$4,722	\$6,072	\$(1,350)	-22.2 %

n/m - percentage changes greater than +/- 100% are not considered meaningful

As part of Trustmark's risk management strategy, exchange-traded derivative instruments are utilized to offset changes in the fair value of MSR attributable to changes in interest rates. Changes in the fair value of these exchange-traded derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of MSR. The MSR fair value represents the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the total hedge cost to the changes in the fair value of the MSR asset attributable to interest rate changes. The impact of this strategy resulted in a net positive ineffectiveness of \$263 thousand and \$1.0 million for the quarters ended March 31, 2011 and 2010, respectively.

Representing a significant component of mortgage banking income are gains on the sales of loans, which equaled \$3.1 million during the first three months of 2011 compared with \$3.8 million for the same time period in 2010. The decline in the gain on sales of loans during the first three months of 2011 resulted from a decrease in loan sales from secondary marketing activities offset by higher profit margins due to the current market environment. Loan sales totaled \$239.7 million during the first three months of 2011, a decrease of \$6.6 million when compared with the same time period in 2010.

Noninterest Expense

Trustmark's noninterest expense for the first three months of 2011 increased \$3.7 million, or 4.8%, when compared with the same time period in 2010. The increase during 2011 was primarily attributable to growth in salaries and benefits, equipment expenses and loan expenses. Management considers disciplined expense management a key area of focus in the support of improving shareholder value. The comparative components of noninterest expense for the periods ended March 31, 2011 and 2010 are shown in the accompanying table:

Noninterest Expense

(\$ in thousands)

	Three Months Ended March 31,				
	2011	2010	\$ Change	% Change	
Salaries and employee benefits	\$44,036	\$42,854	\$1,182	2.8	%
Services and fees	10,270	10,255	15	0.1	%
ORE/Foreclosure expense:					
Writedowns	2,003	420	1,583	n/m	
Carrying costs	1,210	2,641	(1,431)	-54.2	%
Total ORE/Foreclosure expense	3,213	3,061	152	5.0	%
Net occupancy-premises	5,073	5,034	39	0.8	%
Equipment expense	5,144	4,303	841	19.5	%
FDIC assessment expense	2,750				