

TRUSTMARK CORP  
Form 10-Q  
May 06, 2011

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

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Form 10-Q

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

For the quarterly period ended March 31, 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).

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited)	
	March 31, 2011	December 31, 2010
<b>Assets</b>		
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
<b>Total Assets</b>	<b>\$ 9,514,462</b>	<b>\$ 9,553,902</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 1,668,104	\$ 1,636,625
Interest-bearing	5,758,170	5,407,942
<b>Total deposits</b>	<b>7,426,274</b>	<b>7,044,567</b>
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
<b>Total Liabilities</b>	<b>8,354,233</b>	<b>8,404,418</b>
<b>Shareholders' Equity</b>		
<b>Common stock, no par value:</b>		
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 )
<b>Total Shareholders' Equity</b>	<b>1,160,229</b>	<b>1,149,484</b>

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

2

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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
<b>Interest Income</b>		
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
<b>Total Interest Income</b>	<b>97,985</b>	<b>103,140</b>
<b>Interest Expense</b>		
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
<b>Total Interest Expense</b>	<b>11,610</b>	<b>15,722</b>
Net Interest Income	86,375	87,418
Provision for loan losses	7,537	15,095
<b>Net Interest Income After Provision for Loan Losses</b>	<b>78,838</b>	<b>72,323</b>
<b>Noninterest Income</b>		
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
<b>Total Noninterest Income</b>	<b>36,371</b>	<b>38,369</b>
<b>Noninterest Expense</b>		
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
<b>Total Noninterest Expense</b>	<b>80,018</b>	<b>76,361</b>
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.

3

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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
<b>Operating Activities</b>		
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
<b>Investing Activities</b>		
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
<b>Financing Activities</b>		
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.

5

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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 Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)
March 31, 2011						
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	\$ 86,917	\$ (2,184 )	\$ -	\$ -	\$ 86,917	\$ (2,184 )
Obligations of states and political subdivisions	65,523	(2,045 )	307	(5 )	65,830	(2,050 )
Mortgage-backed securities						