TRUSTMARK CORP
Form 10-K
February 25, 2010

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

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2009
or
£ TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-3683

TRUSTMARK CORPORATION
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| MISSISSIPPI | 64-0471500 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |
| 248 East Capitol Street, Jackson, Mississippi | 39201 |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code: | (601) 208-5111 |

Securities registered pursuant to Section 12(b) of the Act:

| | |
|---|---|
| Common Stock, no par value | NASDAQ Stock Market |
| (Title of Class) | (Name of Exchange on Which Registered) |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes T No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes £ No T

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 T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer T Accelerated filer £ Non-accelerated filer £ Smaller reporting company £
(Do not check if a smaller reporting company)

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

Based on the closing sales price at June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by nonaffiliates of the registrant was approximately $918 million.

As of January 29, 2010, there were issued and outstanding 63,694,189 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Trustmark's 2010 Annual Meeting of Shareholders to be held May 11, 2010 are incorporated by reference to Part III of the Form 10-K report.

TRUSTMARK CORPORATION

ANNUAL REPORT ON FORM 10-K

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# PART I

## ITEM 1. BUSINESS

The Corporation

Description of Business

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 December 31, 2009, 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 2,524 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) 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 December 31, 2009, TNB's mortgage loan portfolio totaled approximately $1.0 billion, while its portfolio of mortgage loans serviced for others, including, FNMA, FHLMC and GNMA, totaled approximately $4.2 billion.

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 Trustmark Risk Management, Inc. (TRMI). TRMI engages in individual insurance product sales as a broker of life and long-term care insurance for wealth management customers. 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 December 31, 2009, assets under management and administration totaled $7.2 billion.

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

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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 December 31, 2009, Somerville had total assets of $187 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.

Strategy

Trustmark seeks to be a premier diversified financial services company in its markets, providing a broad range of banking, wealth management and insurance solutions to its customers. Trustmark's products and services are designed to strengthen and expand customer relationships and enhance the organization's competitive advantages in its markets, as well as to provide cross-selling opportunities that will enable Trustmark to continue to diversify its revenue and earnings streams. Much of the growth in Trustmark's total revenues has been derived from organic growth of existing lines of business. For example, the development of Trustmark's business has been enhanced by its 2006 acquisition of Houston-based Republic Bancshares of Texas, Inc., which expanded Trustmark's penetration of the Houston banking market.

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The following table sets forth summary data regarding Trustmark's securities, loans, assets, deposits, equity and revenue growth over the past five years.

Summary Information
($ in thousands)

| December 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Securities | $1,917,380 | $1,802,470 | $717,441 | $1,050,515 | $1,295,784 |
| Total securities growth (decline) | $114,910 | $1,085,029 | $(333,074) | $(245,269) | $(359,837) |
| Total securities growth (decline) | 6.38 % | 151.24 % | -31.71 % | -18.93 % | -21.73 % |
| | | | | | |
| Loans | $6,319,797 | $6,722,403 | $7,040,792 | $6,563,153 | $5,913,343 |
| Total loans (decline) growth | $(402,606) | $(318,389) | $477,639 | $649,810 | $567,559 |
| Total loans (decline) growth | -5.99 % | -4.52 % | 7.28 % | 10.99 % | 10.62 % |
| | | | | | |
| Assets | $9,526,018 | $9,790,909 | $8,966,802 | $8,840,970 | $8,389,750 |
| Total assets (decline) growth | $(264,891) | $824,107 | $125,832 | $451,220 | $336,793 |
| Total assets (decline) growth | -2.71 % | 9.19 % | 1.42 % | 5.38 % | 4.18 % |
| | | | | | |
| Deposits | $7,188,465 | $6,823,870 | $6,869,272 | $6,976,164 | $6,282,814 |
| Total deposits growth (decline) | $364,595 | $(45,402) | $(106,892) | $693,350 | $832,721 |
| Total deposits growth (decline) | 5.34 % | -0.66 % | -1.53 % | 11.04 % | 15.28 % |
| | | | | | |
| Equity | $1,110,060 | $1,178,466 | $919,636 | $891,335 | $741,463 |
| Total equity (decline) growth | $(68,406) | $258,830 | $28,301 | $149,872 | $(8,933) |
| Total equity (decline) growth | -5.80 % | 28.14 % | 3.18 % | 20.21 % | -1.19 % |
| | | | | | |
| Years Ended December 31, | | | | | |
| Revenue * | $522,451 | $496,418 | $463,230 | $435,699 | $419,548 |
| Total revenue growth | $26,033 | $33,188 | $27,531 | $16,151 | $19,903 |
| Total revenue growth | 5.24 % | 7.16 % | 6.32 % | 3.85 % | 4.98 % |

* - Revenue is defined as net interest income plus noninterest income

For additional information regarding the general development of Trustmark's business, see Selected Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations in Items 6 and 7 of this report.

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Geographic Information

The following table shows Trustmark's percentage of loans, deposits and revenues for each of the geographic regions in which it operates at and for the year ended December 31, 2009 ($ in thousands):

| | Loans | | Deposits | | Revenue (3) | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Mississippi (1) | $4,425,413 | 70.0 % | $5,421,597 | 75.4 % | $426,923 | 81.7 % |
| Tennessee (2) | 562,700 | 8.9 % | 1,033,011 | 14.4 % | 38,239 | 7.3 % |
| Florida | 523,654 | 8.3 % | 203,001 | 2.8 % | 26,238 | 5.0 % |
| Texas | 808,030 | 12.8 % | 530,856 | 7.4 % | 31,051 | 6.0 % |
| Total | $6,319,797 | 100.0 % | $7,188,465 | 100.0 % | $522,451 | 100.0 % |

(1) - Mississippi includes Central and Southern Mississippi Regions
(2) - Tennessee includes Memphis, Tennessee and Northern Mississippi Region
(3) - Revenue is defined as net interest income plus noninterest income

Segment Information

For the year ended December 31, 2009, Trustmark operated through three operating segments -- General Banking, Insurance and Wealth Management. (See Note 19 to the accompanying audited financial statements). The table below presents segment data regarding net interest income (expense), noninterest income, net income and average assets for each segment for the last three years ($ in thousands):

| | Years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| General Banking | | | |
| Net interest income | $349,790 | $314,860 | $296,761 |
| Noninterest income | 116,335 | 116,141 | 100,440 |
| Net income | 84,313 | 79,471 | 94,837 |
| Average assets | 9,406,775 | 9,012,458 | 8,733,634 |
| | | | |
| Insurance | | | |
| Net interest income (expense) | $296 | $224 | $(3 ) |
| Noninterest income | 29,099 | 32,544 | 35,574 |
| Net income | 4,248 | 5,377 | 6,908 |
| Average assets | 17,751 | 20,489 | 21,670 |
| | | | |
| Wealth Management | | | |
| Net interest income | $4,123 | $4,076 | $4,025 |
| Noninterest income | 22,808 | 28,573 | 26,433 |
| Net income | 4,486 | 7,569 | 6,850 |
| Average assets | 95,916 | 98,240 | 90,533 |

For information on Trustmark's Segments, please see Results of Segment Operations in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 19 - Segment Information included in Item 8 - Financial Statements and Supplementary Data, which are located elsewhere in this report.

The Current Economic Recession

The economic recession continued to impact Trustmark's consolidated financial statements in 2009. Loans declined by $402.6 million during 2009, reflecting decreased demand from large commercial customers as well as from the Corporation's efforts to reduce exposure to construction and land development lending and the decision to discontinue indirect auto lending in 2008. Reflecting the recessionary economic environment, nonperforming assets increased by $79 million to $231.3 million, representing 3.48% of loans and other real estate at December 31, 2009. Net charge offs in 2009 totaled $68.4 million or 1.01% of average loans, while the provision for loan losses increased to $77.1 million. The increase in each of these metrics is principally attributable to commercial developments of residential real estate conditions, principally in Trustmark's Florida market.

To address the downturn in the Florida real estate market, Trustmark established a dedicated problem asset working group in early 2008. This group is composed of experienced lenders and is charged with managing problem assets in the Florida Market. In addition, a special committee of executive management was formed to provide guidance and monitor the resolutions of problem assets. Aside from these new processes, Trustmark conducts quarterly reviews and assessments of all criticized loans in all its markets.

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These comprehensive assessments, which long pre-date the current economic recession, include the formulation of action plans and updates of recent developments on all criticized loans. Managing credit risks and real estate market conditions during this recession continues to be a primary focus for Trustmark.

In 2008, Trustmark dedicated staff to seek to mitigate foreclosure of primary residences on borrowers that are subject to adverse financial conditions in the current economic environment. Loss mitigation counselors and additional support staff were added to accommodate loss mitigation activity. Trustmark continues to utilize personnel in its collections department and has conducted regular training of its personnel on foreclosure mitigation. In some cases, Trustmark may make deferred payment arrangements with such borrowers on a short-term basis. Likewise, Trustmark is following the Fannie Mae, Freddie Mac and GNMA guidelines for foreclosure moratoriums in its portfolio of loans serviced for others.

Loan modifications made to date have substantially all occurred on loans serviced for outside investors. During 2010, Trustmark established an in-house mortgage modification program. The program is focused on extending loan maturities, which results in a reduced payment for those customers meeting program criteria. Based upon Trustmark's portfolio composite, a limited demand for this program is anticipated. As for new loan originations, Trustmark follows, in substantially all situations, the underwriting standards of the government agencies. As those agencies have revised standards on new originations, so has Trustmark.

Total deposits at December 31, 2009 of $7.188 billion reflected a 5.3% increase from $6.824 billion at December 31, 2008. This growth in deposits is comprised of an increase in both noninterest-bearing and interest-bearing deposits of $189.0 million and $175.6 million, respectively. The increase in noninterest-bearing deposits can be primarily attributed to normal fluctuations in business Demand Deposit Accounts (DDA) balances as well as a “flight to quality” from depositors, especially large corporate depositors, to the unlimited deposit insurance of FDIC Transaction Account Guaranteed qualified accounts. Increases in interest-bearing deposits resulted primarily from growth in balances held by public entities and individuals.

In November 2008, Trustmark participated in the Troubled Asset Relief Program (TARP)-Capital Purchase Program (CPP) sponsored by the U. S. Treasury (Treasury) to reinforce its strong capital position, advance the Treasury’s efforts to facilitate additional lending, maintain its competitive advantage over less well-capitalized competitors, support its foreclosure mitigation programs and support its general operations. On December 7, 2009, Trustmark completed the issuance of 6,216,216 shares of common stock in an underwritten public offering yielding net proceeds of $109.3 million. Following discussions with its federal regulators and utilizing the funding provided by the common stock offering, Trustmark redeemed all the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (Senior Preferred Stock) from the Treasury on December 9, 2009. The amount paid by Trustmark to redeem the Senior Preferred Stock consisted of $215.0 million, which was equivalent to both the original issuance price and the liquidation value of the Senior Preferred Stock, plus final accrued dividends of $716.7 thousand. As a result of the redemption, Trustmark incurred a one-time, non-cash charge of $8.2 million to net income available to common shareholders for the unaccreted discount recorded at the date of the issuance of the Senior Preferred Stock. In addition, on December 30, 2009 Trustmark repurchased the ten-year warrant (the Warrant) from the Treasury for its fair value of $10.0 million.

For additional discussion of the impact of the current economic recession on the financial condition and results of operations of Trustmark and its subsidiaries, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” elsewhere in this report.

Competition

There is significant competition within the banking and financial services industry in the markets in which Trustmark operates. Changes in regulation, technology and product delivery systems have resulted in an increasingly competitive environment. Trustmark expects to continue to face increasing competition from online and traditional financial institutions seeking to attract customers by providing access to similar services and products.

Trustmark and its subsidiaries compete with national and state chartered banking institutions of comparable or larger size and resources and with smaller community banking organizations. Trustmark has numerous local, regional and national nonbank competitors, including savings and loan associations, credit unions, mortgage companies, insurance companies, finance companies, financial service operations of major retailers, investment brokerage and financial advisory firms and mutual fund companies. Because nonbank financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Currently, Trustmark does not face meaningful competition from international banks in its markets, although that could change in the future.

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The table below presents FDIC deposit data regarding TNB's deposit market share by state as of June 30, 2009.

| Market | Deposit Market Share | |
|---|---|---|
| Mississippi | 13.38 | % |
| Texas | 0.12 | % |
| Tennessee | 0.25 | % |
| Florida | 0.05 | % |

Services provided by the Wealth Management segment face competition from many national, regional and local financial institutions. Companies that offer broad services similar to those provided by Trustmark, such as other banks, trust companies and full service brokerage firms, as well as companies that specialize in particular services offered by Trustmark, such as investment advisors and mutual fund providers, all compete with Trustmark's Wealth Management segment.

Trustmark's insurance subsidiaries face competition from local, regional and national insurance companies, independent insurance agencies as well as from other financial institutions offering insurance products.

Trustmark's ability to compete effectively is a result of being able to provide customers with desired products and services in a convenient and cost effective manner. Customers for commercial, consumer and mortgage banking as well as wealth management and insurance services are influenced by convenience, quality of service, personal contacts, availability of products and services and related pricing. Trustmark continually reviews its products, locations, alternative delivery channels, and pricing strategies to maintain and enhance its competitive position. While Trustmark's position varies by market, Management believes it can compete effectively as a result of local market knowledge and awareness of customer needs.

Supervision and Regulation

The following discussion sets forth certain material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information relevant to Trustmark. The discussion is qualified in its entirety by reference to the full text of statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under the review of Congress and state legislatures as well as federal and state regulatory agencies. A change in statutes, regulations or regulatory policies could have a material impact on the business of Trustmark and its subsidiaries.

General

Trustmark is a registered bank holding company under the Bank Holding Company Act (BHC) of 1956, as amended. As such, Trustmark and its nonbank subsidiaries are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve Board. In addition, as part of Federal Reserve policy, a bank holding company is expected to act as a source of financial and managerial strength to subsidiary banks and to maintain resources adequate to support each subsidiary bank. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (i) it may acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5.0% of the voting shares of the bank; (ii) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or (iii) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the Community Reinvestment Act of 1977.

The BHC Act, as amended by the interstate banking provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 repealed the prior statutory restrictions on interstate acquisitions of banks by bank holding companies, such that Trustmark may now acquire a bank located in any other state, regardless of state law to the contrary, subject to certain deposit-percentage, aging requirements, and other restrictions. The Interstate Bank Branching Act also generally provided that, after June 1, 1997, national and state-chartered banks may branch interstate through acquisitions of banks in other states.

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In addition, bank holding companies generally may engage, directly or indirectly, only in banking and such other activities as are determined by the Federal Reserve Board to be closely related to banking. Trustmark is also subject to regulation by the State of Mississippi under its general business corporation laws. In addition to the impact of regulation, Trustmark and its subsidiaries may be affected by legislation that can change banking statutes in substantial and unexpected ways and by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

TNB is a national banking association and, as such, is subject to regulation by the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board. Almost every area of the operations and financial condition of TNB is subject to extensive regulation and supervision and to various requirements and restrictions under federal and state law including loans, reserves, investments, issuance of securities, establishment of branches, capital adequacy, liquidity, earnings, dividends, management practices and the provision of services. Somerville is a state-chartered commercial bank, subject to regulation primarily by the FDIC and secondarily by the Tennessee Department of Financial Institutions.

TNB's nonbanking subsidiaries are subject to a variety of state and federal laws. TIA, a registered investment advisor, is subject to supervision and regulation by the SEC and the State of Mississippi. Bottrell, Fisher-Brown and TRMI are subject to the insurance laws and regulations of the states in which they are active.

Trustmark is also under the jurisdiction of the SEC for matters relating to the offering, sale and trading of its securities. Trustmark is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC.

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (Act) was signed into law on November 12, 1999. As a result of the Act, banks are able to offer customers a wide range of financial products and services without the restraints of previous legislation. In addition, bank holding companies and other financial services providers have been able to commence new activities and develop new affiliations much more readily. The primary provisions of the Act related to the establishment of financial holding companies and financial subsidiaries became effective on March 11, 2000. The Act authorizes national banks to own or control a "financial subsidiary" that engages in activities that are not permissible for national banks to engage in directly. The Act contains a number of provisions dealing with insurance activities by bank subsidiaries. Generally, the Act affirms the role of the states in regulating insurance activities, including the insurance activities of financial subsidiaries of banks, but the Act also preempts certain state laws. As a result of the Act, TNB elected for Bottrell, Fisher-Brown and TRMI to become financial subsidiaries. This enables TNB to engage in insurance agency activities at any location.

The Act also imposed new requirements related to the privacy of customer financial information. In accordance with the Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. Trustmark has complied with these requirements and recognizes the need for its customers' privacy.

Anti-Money Laundering Initiatives and the USA Patriot Act

Trustmark is also subject to extensive regulations aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The Treasury has issued a number of implementing regulations to financial institutions that apply to various requirements of the USA Patriot Act. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and financial consequences for the institution.

Capital Adequacy

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

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The Federal Reserve Board and the OCC, the primary regulators of Trustmark and TNB, respectively, have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets. For purposes of calculating these ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. Capital, at both the holding company and bank level, is classified in one of three tiers depending on type. Core capital (Tier 1) for both Trustmark and TNB includes total equity capital, with the impact of accumulated other comprehensive income (loss) eliminated plus allowable trust preferred securities less goodwill, other identifiable intangible assets and disallowed servicing assets. Supplementary capital (Tier 2) includes the allowance for loan losses, subject to certain limitations, as well as allowable subordinated debt. Total capital for both Trustmark and TNB is a combination of Tier 1 and Tier 2 capital.

Trustmark and TNB are required to maintain Tier 1 and total capital equal to at least 4% and 8% of their total risk-weighted assets, respectively. At December 31, 2009, Trustmark exceeded both requirements with Tier 1 capital and total capital equal to 12.61% and 14.58% of its total risk-weighted assets, respectively. At December 31, 2009, TNB also exceeded both requirements with Tier 1 capital and total capital equal to 12.21% and 14.16% of its total risk-weighted assets, respectively.

The Federal Reserve Board also requires bank holding companies to maintain a minimum leverage ratio. The guidelines provide for a minimum leverage ratio of 3% for banks and bank holding companies that meet certain specified criteria, including having the highest regulatory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other holding companies and national banks are required to maintain a minimum leverage ratio of 4%, unless an appropriate regulatory authority specifies a different minimum ratio. For TNB to be considered well-capitalized under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5%. At December 31, 2009, the leverage ratios for Trustmark and TNB were 9.74% and 9.45%, respectively.

Failure to meet minimum capital requirements could subject a bank to a variety of enforcement remedies. The Federal Deposit Insurance Act, as amended, (FDIA), identifies five capital categories for insured depository institutions. These include well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. FDIA requires banking regulators to take prompt corrective action whenever financial institutions do not meet minimum capital requirements. Failure to meet the capital guidelines could also subject a depository institution to capital raising requirements. In addition, a depository institution is generally prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company if the institution would thereafter be undercapitalized. As of December 31, 2009, the most recent notification from the OCC categorized TNB as well-capitalized based on the ratios and guidelines described above. In addition, FDIA requires the various regulatory agencies to prescribe certain noncapital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord (Basel II) and in December 2007, U.S. banking regulators published a final Basel II rule. The Basel II guidelines became operational in April 2008, but are mandatory only for banks with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more. The U.S. implementation timetable consists of a parallel calculation period under the current regulatory capital regime (Basel I) and Basel II, starting any time between April 1, 2008 and April 1, 2010 followed by a three-year transition period, typically starting 12 months after the beginning of parallel reporting. The U.S. banking regulators have reserved the right to change how Basel II is applied in the U.S. following a review at the end of the second year of the transitional period, and to retain the existing prompt corrective action and leverage capital requirements applicable to banking organizations in the U.S. The Basel

II requirements are the subject of political debate and potential change in light of recent events. Trustmark and TNB are not required to comply with Basel II at this time due to its asset size and lack of on-balance sheet foreign exposure.

Somerville, which is not a significant subsidiary as defined by the SEC and thus is not discussed in detail in this section, was also in compliance with all applicable capital adequacy guidelines at December 31, 2009.

Payment of Dividends and Other Restrictions

The principal source of Trustmark's cash revenues is dividends from TNB. There are various legal and regulatory provisions that limit the amount of dividends TNB can pay to Trustmark without regulatory approval. Approval of the OCC is required if the total of all dividends declared in any calendar year exceeds the total of its net income for that year combined with its retained net income from the preceding two years. TNB will have available in 2010 approximately $57.2 million plus its net income for that year to pay as dividends. In addition, subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to the bank holding company or any of its subsidiaries. Further, subsidiary banks of a bank holding company are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of any services to the bank holding company.

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FDIC Deposit Insurance Assessments

The deposits of TNB are insured up to regulatory limits set by the Deposit Insurance Fund (DIF), as administered by the FDIC, and, accordingly, are subject to deposit insurance assessments to maintain the DIF. The FDIC uses a risk based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating (the CAMELS component rating). For Risk Category I institutions (generally those institutions with less than $10 billion in assets), including Trustmark National Bank, assessment rates are determined from a combination of financial ratios and CAMELS component ratings. The minimum annualized assessment rate for Risk Category I institutions during 2009 was 12 basis points per $100 of deposits with the maximum rate being 16 basis points. Assessment rates for institutions in Risk Category I may vary within this range depending upon changes in CAMELS component ratings and financial ratios.

In 2009, TNB's expenses related to deposit insurance premiums totaled $14.7 million, which reflects the impact of both increased assessment rates as well as a five basis point special assessment. In addition, TNB also paid approximately $711 thousand in Financing Corporation (FICO) assessments related to outstanding FICO bonds for which the FDIC serves as collection agent. The bonds issued by the FICO are due to mature from 2017 through 2019. For the quarter ended December 31, 2009, the FICO assessment was equal to 1.06 basis points per $100 of deposits. Somerville's total FDIC expenses for 2009 totaled $367 thousand.

On October 3, 2008, as part of the Emergency Economic Stabilization Act of 2008 (EESA), the basic limit on federal deposit insurance coverage was increased from $100,000 to $250,000 per depositor. The EESA, as amended by the Helping Families Save Their Homes Act of 2009, provides that the basic deposit insurance limit will return to $100,000 after December 31, 2013, except for IRAs and certain other retirement accounts, which will remain at $250,000 per depositor.

On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program (TLGP), which was designed to strengthen confidence and encourage liquidity in the banking system. The TLGP consists of two components: a temporary guarantee of certain newly-issued unsecured debt (the Debt Guarantee Program) and a temporary unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not covered by the federal deposit insurance coverage limit of $250,000 (the Transaction Account Guarantee Program). Under the Debt Guarantee Program, the FDIC guarantees, with certain limitations, newly issued senior unsecured debt with a term greater than 30 days of eligible participating entities. Under the Transaction Account Guarantee Program, the FDIC guarantees noninterest-bearing transaction accounts, as well as Negotiable Order of Withdrawal, or NOW, accounts with interest rates of 50 basis points or less. Trustmark and its banking subsidiaries opted to participate in both programs, but incurred no additional assessment for the Debt Guarantee Program since it currently has no qualifying debt outstanding. Participants in the Transaction Account Guarantee Program, including Trustmark, paid an assessment of 10 basis points for covered deposits exceeding $250,000. The Debt Guarantee Program expired on October 31, 2009, although the FDIC established a limited emergency guarantee facility that is available to entities that apply to and receive prior approval from the FDIC. The FDIC extended the Transaction Account Guarantee Program (which had originally been set to expire on December 31, 2009) to June 30, 2010 and increased the assessment rate to 15, 20 or 25 basis points, depending on the institution's risk category. The assessment rate applicable to Trustmark for participation in the Transaction Account Guarantee Program from December 31, 2009 to June 30, 2010 will be 15 basis points, based on Trustmark's inclusion in Risk Category I.

The FDIC has stated its intention, as part of a proposed plan to restore the DIF following significant decreases in its reserves, to increase deposit insurance assessments. On January 1, 2009, the FDIC increased its assessment rates and has since imposed further rate increases and changes to the current risk-based assessment system. On May 22, 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets less Tier 1 capital as of June 30, 2009. On September 29, 2009, the FDIC increased annual assessment rates uniformly by 3 basis points beginning in 2011. On November 12, 2009, the FDIC adopted a final rule requiring a majority of institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. Trustmark's prepaid assessment amount was approximately $39.1 million and was collected by the FDIC on December 30, 2009.

Recent Regulatory Developments

In November 2009, the Federal Reserve Board adopted final rules that prohibit financial institutions, such as Trustmark, from charging customers for paying overdrafts on ATM and one-time debt card transactions, unless the consumer consents to the overdraft service for those products. This change will reduce the fees that Trustmark is able to charge when customers have insufficient funds in an account. Trustmark estimates that this charge, which becomes effective on July 1, 2010, may reduce noninterest income by approximately $5 million to $7 million for the year ending December 31, 2010.

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Available Information

Trustmark's internet address is www.trustmark.com. Information contained on this website is not a part of this report. Trustmark makes available through this address, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed, or furnished to, the SEC.

Employees

At December 31, 2009, Trustmark employed 2,524 full-time equivalent associates, none of which are represented by a collective bargaining agreement. Trustmark believes its employee relations to be good.

Executive Officers of the Registrant

The executive officers of Trustmark Corporation (the Registrant) and its primary bank subsidiary, Trustmark National Bank, including their ages, positions and principal occupations for the last five years are as follows:

Richard G. Hickson, 65
Trustmark Corporation
Chairman, President and Chief Executive Officer since April 2002
Trustmark National Bank
Chairman and Chief Executive Officer since April 2002

Gerard R. Host, 55
Trustmark Corporation
Interim Principal Financial Officer from November 2006 to January 2007
Trustmark National Bank
President and Chief Operating Officer since March 2008
President – General Banking from February 2004 to March 2008

Louis E. Greer, 55
Trustmark Corporation
Treasurer and Principal Financial Officer since January 2007
Chief Accounting Officer from January 2003 to January 2007
Trustmark National Bank
Executive Vice President and Chief Financial Officer since February 2007
Senior Vice President and Chief Accounting Officer from February 2004 to February 2007

T. Harris Collier III, 61
Trustmark Corporation
Secretary since April 2002
Trustmark National Bank
General Counsel since January 1990

Duane A. Dewey, 51
Trustmark National Bank
Executive Vice President and Corporate Banking Manager since September 2008
President – Central Region from February 2007 to September 2008

President – Wealth Management Division from August 2003 to February 2007

George C. Gunn, 58
Trustmark National Bank
Executive Vice President and Real Estate Banking Manager since September 2008
Executive Vice President and Corporate Banking Manager from February 2004 to September 2008

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Glynn Ingram, 58
Trustmark National Bank
Executive Vice President and Chief Information Officer since September 2008
Senior Vice President and Chief Information Officer from December 2007 to September 2008
Chief Information Officer from December 2006 to December 2007
Saks Incorporated
Vice President – Telecommunications from July 2001 to December 2006

James M. Outlaw, Jr., 56
Trustmark National Bank
President and Chief Operating Officer – Texas since August 2006
Executive Vice President and Chief Information Officer from September 1999 to August 2006

W. Arthur Stevens, 45
Trustmark National Bank
President – Mississippi Region since September 2008
President – South Region from February 2005 to September 2008
Senior Vice President and Manager of Retail Administration from February 2003 to February 2005

Breck W. Tyler, 51
Trustmark National Bank
Executive Vice President and Mortgage Services Manager since June 2006
Senior Vice President and Mortgage Services Manager from September 1999 to June 2006

Rebecca N. Vaughn-Furlow, 65
Trustmark National Bank
Executive Vice President and Human Resources Director since June 2006
Senior Vice President and Human Resources Director from February 1999 to June 2006

Harry M. Walker, 59
Trustmark National Bank
President – Jackson Metro since February 2004

Chester A. (Buddy) Wood, Jr., 61
Trustmark National Bank
Executive Vice President and Chief Risk Officer since February 2007
Senior Vice President and Treasurer from January 2005 to February 2007

C. Scott Woods, 53
Trustmark National Bank
Executive Vice President and Insurance Services Manager since June 2006
Senior Vice President and Insurance Services Manager from September 2002 to June 2006

## ITEM 1A. RISK FACTORS

Trustmark and its subsidiaries could be adversely impacted by various risks and uncertainties, which are difficult to predict. As a financial institution, Trustmark has significant exposure to market risk, including interest rate risk, liquidity risk and credit risk. This section includes a description of the risks, uncertainties and assumptions identified by Management that could materially affect Trustmark's financial condition and results of operations, as well as the value of Trustmark's financial instruments in general, and Trustmark common stock, in particular. Additional risks and uncertainties that Management currently deems immaterial or is unaware of may also impair Trustmark's financial condition and results of operations. This report is qualified in its entirety by the risk factors that are identified below. The occurrence of any one of, or of a combination of, these risk factors could have a material negative effect on Trustmark's financial condition or results of operations.

Trustmark's largest source of revenue (net interest income) is subject to interest rate risk.

Trustmark is exposed to interest rate risk in its core banking activities of lending and deposit taking, since assets and liabilities reprice at different times and by different amounts as interest rates change. For the year ended December 31, 2009, Trustmark's total interest income was $442.1 million while net interest income was approximately $354.2 million. Trustmark's simulation model using balances at December 31, 2009 estimated that in the event of a 200 basis point increase in interest rates, there would be a reduction in net interest income of 3.2%. Net interest income is Trustmark's largest revenue source, and it is important to understand how Trustmark is subject to interest rate risk.

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In general, for a given change in interest rates, the amount of the change in value (positive or negative) is larger for assets and liabilities with longer remaining maturities. The shape of the yield curve may affect new loan yields, funding costs and investment income differently.

The remaining maturity of various assets or liabilities may shorten or lengthen as payment behavior changes in response to changes in interest rates. For example, if interest rates decline sharply, loans may pre-pay, or pay down, faster than anticipated, thus reducing future cash flows and interest income. Conversely, if interest rates increase, depositors may cash in their certificates of deposit prior to term (notwithstanding any applicable early withdrawal penalties) or otherwise reduce their deposits to pursue higher yielding investment alternatives.

Repricing frequencies and maturity profiles for assets and liabilities may occur at different times. For example, in a falling rate environment, if assets reprice faster than liabilities, there will be an initial decline in earnings. Moreover, if assets and liabilities reprice at the same time, they may not be by the same increment. For instance, if the Federal funds rate increased 50 basis points, rates on demand deposits may rise by 10 basis points, whereas rates on prime-based loans will instantly rise 50 basis points.

Trustmark may face increased regulation of its industry. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.

Financial instruments do not respond in a parallel fashion to rising or falling interest rates. This causes asymmetry in the magnitude of changes in net interest income, net economic value and investment income resulting from the hypothetical increases and decreases in interest rates. Therefore, Management monitors interest rate risk and adjusts Trustmark's funding strategies to mitigate adverse effects of interest rate shifts on Trustmark's balance sheet.

Trustmark utilizes derivative contracts to hedge Mortgage Servicing Rights (MSR) in order to offset changes in fair value resulting from rapidly changing interest rate environments. In spite of Trustmark's due diligence in regard to these hedging strategies, significant risks are involved that, if realized, may prove such strategies to be ineffective, which could adversely affect results of operations. Risks associated with these strategies include the risk that counterparties in any such derivative and other hedging transactions may not perform; the risk that these hedging strategies rely on Management's assumptions and projections regarding these assets and general market factors, including prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, and that these assumptions and projections may prove to be incorrect; the risk that these hedging strategies do not adequately mitigate the impact of changes in interest rates, prepayment speeds or other forecasted inputs to the hedging model; and, the risk that the models used to forecast the effectiveness of hedging instruments may project expectations that differ from actual results.

Trustmark closely monitors the sensitivity of net interest income and investment income to changes in interest rates and attempts to limit the variability of net interest income as interest rates change. Trustmark makes use of both on- and off-balance sheet financial instruments to mitigate exposure to interest rate risk.

The national economic recession has increased the business risks for Trustmark.

The capital and credit markets have been experiencing volatility and disruption during the last two years. Issues in the housing market over the past year, with anemic improvement in home prices, along with prolonged losses of jobs continuing to add uncertainty to the employment outlook, have negatively impacted the credit performance of loans and resulted in writedowns of asset values by financial institutions, including Trustmark. For example, in Trustmark's Florida market, which is the market in which Trustmark has experienced the greatest impact from the economic recession, at December 31, 2009, approximately $190.3 million in aggregate principal amount of loans, or approximately 36.3% of total Florida loans of approximately $523.7 million, were classified as criticized, meaning that those loans exhibit potential credit weaknesses. Of those loans, approximately $45.3 million in aggregate principal amount of loans were classified as "impaired," meaning that they are collateral dependent, and that Trustmark charges off the full difference between the loan value and the net realizable value of the underlying collateral. For Trustmark, the amount of nonaccrual loans rose by approximately 23.8% from December 31, 2008 to approximately $141.2 million at December 31, 2009. At December 31, 2009, Trustmark's total nonperforming assets amounted to approximately $231.3 million, an increase of approximately 51.5% over total nonperforming assets at December 31, 2008.

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Trustmark does not assume that the difficult conditions in the economy and in the financial markets generally, and in particular in the Florida market, will improve significantly in the near future.  A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on Trustmark.  In particular, Trustmark may face the following risks in connection with these events:

Market developments and the resulting economic pressure on consumers may affect consumer confidence levels and may cause increases in delinquencies and default rates, which, among other effects, could further affect Trustmark's charge-offs and provision for loan losses.

Conditions in Trustmark's markets in Mississippi, Tennessee or Texas, which to date have been less severe than in Trustmark's Florida market, could worsen.

Competition in the industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

The current market disruptions make valuation of assets even more difficult and subjective, and Management's ability to measure the fair value of Trustmark's assets could be adversely affected.  If Management determines that a significant portion of its assets have values that are significantly below their recorded carrying value, Trustmark could recognize a material charge to earnings in the quarter during which such determination was made, Trustmark's capital ratios would be adversely affected by any such change and a rating agency might downgrade its credit rating or put Trustmark on credit watch.

Trustmark may face increased regulation of its industry as a result of the issuance of new regulations. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.

Trustmark is subject to lending risk, which could impact the adequacy of the allowance for loan losses and results of operations.

There are inherent risks associated with Trustmark's lending activities.  As discussed above, the current economic recession resulted in increases in Trustmark's loan losses and impaired loans.  If current trends in the housing and real estate markets continue, Trustmark may continue to experience higher than normal delinquencies and credit losses.  Moreover, if a prolonged recession occurs, Management expects that it could severely affect economic conditions in Trustmark's market areas and that Trustmark could experience significantly higher delinquencies and credit losses.  In addition, bank regulatory agencies periodically review Trustmark's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further charge-offs, based on judgments different from those of Management.  As a result, Trustmark may elect to make further increases in its provision for loan losses in the future, particularly if economic conditions continue to deteriorate.

Trustmark is subject to liquidity risk, which could disrupt its ability to meet its financial obligations.

Liquidity refers to Trustmark's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demand for loans and deposit withdrawals, funding operating costs and other corporate purposes.  Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ.  Trustmark obtains funding through deposits and various short-term and long-term wholesale borrowings, including federal funds purchased and securities sold under agreements to repurchase, brokered deposits, the Federal Reserve Discount Window, Federal Home Loan Bank (FHLB) advances and TAF borrowings.  Any significant restriction or disruption of Trustmark's ability to obtain funding from these or other sources could have a negative effect on Trustmark's ability to satisfy its current and future financial obligations, which could materially affect Trustmark's financial condition.

In addition to the risk that one or more of the funding sources may become constrained due to market conditions unrelated to Trustmark, there is the risk that Trustmark's credit profile may decline such that one or more of these funding sources becomes partially or wholly unavailable to Trustmark.

Trustmark attempts to quantify such credit event risk by modeling scenarios that estimate the liquidity impact resulting from a short-term ratings downgrade over various grading levels. Trustmark estimates such impact by attempting to measure the effect on available unsecured lines of credit, available capacity from secured borrowing sources and securitizable assets. To mitigate such risk, Trustmark maintains available lines of credit with the FRB and the FHLB that are secured by loans and investment securities. Management continuously monitors Trustmark's liquidity position for compliance with internal policies.

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Declines in asset values may result in impairment charges and adversely affect the value of our investments.

We maintain an investment portfolio that includes, among other asset classes, obligations of states and municipalities, agency mortgage-related securities and corporate securities. As of December 31, 2009, we had approximately $1.7 billion of securities available for sale and $0.2 billion of securities held to maturity. We may be required to record mark-to-market adjustments on our investment securities. The market value of investments in our investment portfolio may be affected by factors other than interest rates or the underlying performance of the issuer of the securities, such as ratings downgrades, adverse changes in the business climate and a lack of pricing information or liquidity in the secondary market for certain investment securities. In addition, government involvement or intervention in the financial markets or the lack thereof or market perceptions regarding the existence or absence of such activities could affect the market and the market prices for these securities, such as the conservatorship of FNMA and FHLMC.

On a quarterly basis, we evaluate investments and other assets for impairment indicators. As of December 31, 2009, we had total gross unrealized losses in respect of our temporarily impaired securities of $2.2 million. We may be required to record impairment charges if our investments suffer a decline in value that is other-than-temporary. If we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the other-than temporary impairment, which could have a material adverse effect on our results of operations in the period in which a write-off, if any, occurs.

The effects of the Federal Government's efforts to wind down various programs implemented to support the financial markets cannot be predicted.

Economic conditions, particularly over the course of the last year and a half, have resulted in government regulatory agencies and political bodies placing increased focus on and scrutiny of the financial services industry. The Federal government has intervened on an unprecedented scale. Many of these programs are in the process of being unwound, as the government seeks to affect an orderly withdrawal of this support. The effects of this wind down on Trustmark, or on the markets in which we compete, cannot be predicted.

Legislators and regulators are considering a wide range of potential regulatory initiatives relating to the financial services industry, which, if enacted, could materially affect Trustmark's results of operations, financial condition, liquidity or the market price of our common stock.

The Federal government is considering various proposals for a comprehensive overhaul of the regulatory structure for the financial markets. In addition, various forms of taxes on financial institutions to fund government resolution authority for failed large institutions, as well as taxes designed to, in effect, reimburse the Federal government for the perceived costs incurred by the Federal government to date in its actions to support the markets. It is not possible to predict the form any such new regulations or taxes, if enacted, will take, or whether any such efforts will succeed in improving economic conditions nationally or in our markets, or whether the measures adopted will have consequences that prove to be adverse to the markets, either nationally or in which Trustmark competes. It is possible that these measures could adversely affect the creditworthiness of counterparties of Trustmark, which could increase our risk profile.

Trustmark operates in a highly competitive financial services industry.

Trustmark faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and regional banks, as well as community banks within the various markets in which Trustmark operates. At this time, major international banks do not compete directly with Trustmark in its markets, although they may do so in the future. Trustmark also faces competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation.

Some of Trustmark's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many of Trustmark's larger competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than Trustmark.

Trustmark's ability to compete successfully depends on a number of factors, including: the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets; the ability to continue to expand Trustmark's market position through organic growth and acquisitions; the scope, relevance and pricing of products and services offered to meet customer needs and demands; the rate at which Trustmark introduces new products and services relative to its competitors; and industry and general economic trends. Failure to perform in any of these areas could significantly weaken Trustmark's competitive position, which could adversely affect Trustmark's growth and profitability.

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Trustmark may be required to pay significantly higher FDIC premiums in the future.

A significant increase in insured institution failures during 2009 has resulted in a decline in the designated reserve ratio of the Deposit Insurance Fund (DIF) to historical lows. On November 12, 2009, the FDIC adopted a final rule requiring substantially all institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. On September 29, 2009, the FDIC increased annual assessment rates uniformly by 3 basis points beginning in 2011. As a result, an institution's total base assessment rate for purposes of estimating an institution's prepaid assessment for 2011 and 2012 will be increased by an annualized 3 basis points beginning in 2011. Again for purposes of calculating the amount that an institution will prepay, an institution's third quarter 2009 assessment base will be increased quarterly at a 5 percent annual growth rate through the end of 2012. Trustmark's prepaid assessment amount was approximately $39.1 million and was collected by the FDIC on December 30, 2009. At least semi-annually hereafter, the FDIC will update its loss and income projections for the DIF. If necessary to return the reserve ratio to its mandated minimum, the FDIC could increase assessment rates during its restoration period, which could have an adverse impact on Trustmark's results of operations.

The stock price of financial institutions, like Trustmark, can be volatile.

The volatility in the stock prices of companies in the financial services industry may make it more difficult for you to resell your Trustmark common stock at prices you find attractive and at the time you want. Trustmark's stock price can fluctuate significantly in response to a variety of factors, including factors affecting the financial industry as a whole. Trustmark's stock price in 2009 was subjected to increased volatility, reflecting the volatility faced by the financial markets in general. Since January 1, 2009, Trustmark's stock reached a high of $23.45 per share on February 9, 2009 and a low of $14.18 per share on March 6, 2009. The factors affecting financial stocks generally and Trustmark's stock price in particular include:

- actual or anticipated variations in earnings;
- changes in analysts' recommendations or projections;
- operating and stock performance of other companies deemed to be peers;
- perception in the marketplace regarding Trustmark, its competitors and/or the industry as a whole;
- significant acquisitions or business combinations involving Trustmark or its competitors;
- changes in government regulation;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions and;
- volatility affecting the financial markets in general.

General market fluctuations, industry factors and general economic and political conditions could also cause Trustmark's stock price to decrease regardless of operating results.

Potential acquisitions by Trustmark may disrupt Trustmark's business and dilute shareholder value.

Since January 1, 2004, Trustmark has consummated three significant acquisitions: (i) five branches of Allied Houston Bank, on March 12, 2004; (ii) Fisher-Brown, Incorporated, a northwest Florida insurance agency, on December 1, 2004; and (iii) Republic Bancshares of Texas, Inc., on August 25, 2006. Trustmark seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services, and Trustmark will likely continue to seek to acquire such businesses in the future. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including: potential exposure to unknown or contingent liabilities of the target company; exposure to potential asset quality issues of the target company; difficulty and expense of integrating the operations and personnel of the target company; potential disruption to Trustmark's business; potential diversion of Trustmark's Management's time and attention; the possible loss of key employees and customers of the target company; difficulty in estimating the value of the target company and potential changes in banking or tax laws or regulations that may affect the target company. Acquisitions may involve the payment of a premium over book and market values, and, therefore, some dilution of Trustmark's tangible book value and net income per share of common stock may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue projections, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on Trustmark's financial condition and results of operations.

Changes in accounting standards may affect how Trustmark reports its financial condition and results of operations.

Trustmark's accounting policies and methods are fundamental to how Trustmark records and reports its financial condition and results of operations. From time to time, the Financial Accounting Standards Board (FASB) changes the financial accounting and reporting standards that govern the preparation of Trustmark's financial statements. The ongoing economic recession has resulted in increased scrutiny of accounting standards by regulators and legislators, particularly as they relate to fair value accounting principles. In addition, ongoing efforts to achieve convergence between U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards may result in changes to U.S. GAAP. Any such changes can be difficult to predict and can materially affect how Trustmark records and reports its financial condition and results of operations.

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We are exposed to operational, reputational and regulatory risk and we must utilize new technologies to deliver our products and services.

As is customary in the banking industry, we are dependent upon automated and non-automated systems to record and process our transaction volume. This poses the risk that technical system flaws, employee errors or tampering or manipulation of those systems by employees, customers or outsiders will result in losses. Any such losses, which may be difficult to detect, could adversely affect our financial condition or results of operations. In addition, the occurrence of such a loss could expose us to reputational risk, the loss of customer business, additional regulatory scrutiny or civil litigation and possible financial liability. We may also be subject to disruptions of our operating systems arising from events that are beyond our control (for example, computer viruses or electrical or telecommunications outages). We are further exposed to the risk that our third party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors as us). These disruptions may interfere with service to our customers and result in a financial loss or liability that could adversely affect our financial condition or results of operations. In order to deliver new products and services and to improve the productivity of existing products and services, the banking industry relies on rapidly evolving technologies. Our ability effectively to utilize new technologies to address our customers' needs and create operating efficiencies could materially affect our future prospects. We can not provide any assurances that we will be successful in utilizing such new technologies.

Natural disasters, such as hurricanes, could have a significant negative impact on Trustmark's business.

Many of Trustmark's loans are secured by property or are made to businesses in or near the Gulf coast regions of Texas, Mississippi and Florida, which regions are often in the path of seasonal hurricanes. As reported in previous filings, Hurricane Katrina had a catastrophic effect on Trustmark's Mississippi market, and in late summer 2008, Hurricane Gustav threatened to create a similar result in the Houston metropolitan area, which is the location of Trustmark's Texas operations. Natural disasters, such as hurricanes, could have a significant negative impact on the stability of Trustmark's deposit base, the ability of borrowers to repay outstanding loans and the value of collateral securing loans, and could cause Trustmark to incur material additional expenses. Although Management has established disaster recovery policies and procedures, the occurrence of a natural disaster, especially if any applicable insurance coverage is not adequate to enable Trustmark's borrowers to recover from the effects of the event, could have a material adverse effect on Trustmark.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2. PROPERTIES

Trustmark's principal offices are housed in its complex located in downtown Jackson, Mississippi and owned by TNB. Approximately 224,000 square feet, or 85%, of the available space in the main office building is allocated to bank use with the remainder occupied or available for occupancy by tenants on a lease basis. Trustmark, through its two banking subsidiaries, also operates 140 full-service branches, 17 limited-service branches, one in-store branch and an ATM network, which includes 132 ATMs at on-premise locations and 73 ATMs located at off-premise sites. In addition, Trustmark's Insurance Division utilizes three off-site locations while the Mortgage Banking Group has one additional off-site location. Trustmark leases 105 of its 235 locations with the remainder being owned.

## ITEM 3. LEGAL PROCEEDINGS

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in 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. 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.

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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. The lawsuit is in its preliminary stage and has been previously reported in the press. Trustmark believes that the lawsuit is entirely without merit and intends to defend vigorously against it.

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 the final resolution of pending legal proceedings will not have a material impact on Trustmark's consolidated financial position or results of operations; however, Management is unable to estimate a range of potential loss on these matters because of the nature of the legal environment in states where Trustmark conducts business.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to Trustmark's shareholders during the fourth quarter of 2009.

# PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Prices and Dividends

Trustmark's common stock is listed on the NASDAQ Stock Market and is traded under the symbol TRMK. The table below represents, for each quarter of 2009 and 2008, the high and low intra-day sales price per share of Trustmark's common stock and the cash dividends declared per common share.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Sales Price Per Share | High | Low | High | Low |
| First quarter | $23.45 | $14.18 | $25.72 | $17.60 |
| Second quarter | 23.30 | 17.36 | 24.00 | 17.64 |
| Third quarter | 22.00 | 17.32 | 34.00 | 14.31 |
| Fourth quarter | 22.99 | 18.07 | 23.50 | 14.51 |

| Dividends Per Share | 2009 | 2008 |
|---|---|---|
| First quarter | $0.23 | $0.23 |
| Second quarter | 0.23 | 0.23 |
| Third quarter | 0.23 | 0.23 |
| Fourth quarter | 0.23 | 0.23 |
| Total | $0.92 | $0.92 |

At January 28, 2010, there were 3,710 holders of record of Trustmark's common stock. Other information required by this item can be found in Note 15 - Shareholders' Equity included in Item 8 - Financial Statements and Supplementary Data located elsewhere in this document.

Stock Repurchase Plans

Trustmark did not repurchase any common shares during 2009 or 2008 and currently has no authorization from the Board of Directors to repurchase its common stock.  During 2007, Trustmark repurchased approximately 1.4 million shares of its common stock.

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Stock Price Performance Graph

The following graph compares Trustmark's annual percentage change in cumulative total return on common shares over the past five years with the cumulative total return of companies comprising the NASDAQ market value index and the Hemscott Industry Group 413. The Hemscott Industry Group 413 is an industry index published by Hemscott, Inc., and consists of 75 bank holding companies located in the Southeastern United States. This presentation assumes that $100 was invested in shares of the relevant issuers on December 31, 2004, and that dividends received were immediately invested in additional shares. The graph plots the value of the initial $100 investment at one-year intervals for the fiscal years shown.

| Company | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Trustmark | 100 | 90.99 | 111.35 | 89.18 | 79.53 | 87.16 |
| Hemscott Industry Group 413 | 100 | 101.26 | 119.31 | 81.54 | 48.16 | 46.90 |
| NASDAQ | 100 | 102.20 | 112.68 | 124.57 | 74.71 | 108.56 |

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ITEM 6. SELECTED FINANCIAL DATA

The following unaudited consolidated financial data is derived from Trustmark's audited financial statements as of and for the five years ended December 31, 2009 ($ in thousands except per share data). The data should be read in conjunction with Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 – Financial Statements and Supplementary Data found elsewhere in this report.

| Years Ended December 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Consolidated Statements of Income | | | | | |
| Total interest income | $442,062 | $483,279 | $543,143 | $482,746 | $415,697 |
| Total interest expense | 87,853 | 164,119 | 242,360 | 202,175 | 139,256 |
| Net interest income | 354,209 | 319,160 | 300,783 | 280,571 | 276,441 |
| Provision for loan losses | 77,112 | 76,412 | 23,784 | (5,938) | 19,541 |
| Noninterest income | 168,242 | 177,258 | 162,447 | 155,128 | 143,107 |
| Noninterest expense | 308,259 | 283,719 | 276,449 | 260,480 | 243,276 |
| Income before income taxes | 137,080 | 136,287 | 162,997 | 181,157 | 156,731 |
| Income taxes | 44,033 | 43,870 | 54,402 | 61,884 | 53,780 |
| Net Income | 93,047 | 92,417 | 108,595 | 119,273 | 102,951 |
| Preferred stock dividends/discount accretion | 19,998 | 1,353 | - | - | - |
| Net Income Available to Common Shareholders | $73,049 | $91,064 | $108,595 | $119,273 | $102,951 |
| | | | | | |
| Common Share Data | | | | | |
| Basic earnings per share | $1.26 | $1.59 | $1.88 | $2.11 | $1.82 |
| Diluted earnings per share | 1.26 | 1.59 | 1.88 | 2.09 | 1.81 |
| Cash dividends per share | 0.92 | 0.92 | 0.89 | 0.85 | 0.81 |
| | | | | | |
| Performance Ratios | | | | | |
| Return on average common equity | 7.22 % | 9.62 % | 12.02 % | 14.89 % | 13.86 % |
| Return on average tangible common equity | 10.80 % | 14.88 % | 19.17 % | 20.78 % | 18.24 % |
| Return on average total equity | 7.72 % | 9.53 % | 12.02 % | 14.89 % | 13.86 % |
| Return on average assets | 0.98 % | 1.01 % | 1.23 % | 1.42 % | 1.25 % |
| Net interest margin (fully taxable equivalent) | 4.25 % | 4.01 % | 3.91 % | 3.84 % | 3.85 % |
| | | | | | |
| Credit Quality Ratios | | | | | |
| Net charge-offs/average loans | 1.01 % | 0.87 % | 0.23 % | 0.06 % | 0.13 % |
| Provision for loan losses/average loans | 1.14 % | 1.09 % | 0.35 % | -0.09 % | 0.34 % |
| Nonperforming loans/total loans (incl LHFS*) | 2.16 % | 1.64 % | 0.91 % | 0.55 % | 0.48 % |
| Nonperforming assets/total loans (incl LHFS*) plus ORE** | 3.48 % | 2.18 % | 1.02 % | 0.58 % | 0.56 % |
| Allowance for loan losses/total loans (excl LHFS*) | 1.64 % | 1.41 % | 1.13 % | 1.10 % | 1.30 % |

| December 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Consolidated Balance Sheets | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Total assets | $9,526,018 | $9,790,909 | $8,966,802 | $8,840,970 | $8,389,750 |
| Securities | 1,917,380 | 1,802,470 | 717,441 | 1,050,515 | 1,295,784 |
| Loans (including loans held for sale) | 6,546,022 | 6,960,668 | 7,188,300 | 6,658,528 | 6,060,279 |
| Deposits | 7,188,465 | 6,823,870 | 6,869,272 | 6,976,164 | 6,282,814 |
| Common shareholders' equity | 1,110,060 | 973,340 | 919,636 | 891,335 | 741,463 |
| Preferred shareholder equity | - | 205,126 | - | - | - |
| | | | | | |
| Capital Ratios | | | | | |
| Total equity/total assets | 11.65 % | 12.04 % | 10.26 % | 10.08 % | 8.84 % |
| Common equity/total assets | 11.65 % | 9.94 % | 10.26 % | 10.08 % | 8.84 % |
| Tangible equity/tangible assets | 8.67 % | 9.11 % | 6.94 % | 6.67 % | 7.00 % |
| Tangible common equity/tangible assets | 8.67 % | 6.95 % | 6.94 % | 6.67 % | 7.00 % |
| Tier 1 leverage ratio | 9.74 % | 10.42 % | 7.86 % | 7.65 % | 7.19 % |
| Tier 1 risk-based capital ratio | 12.61 % | 13.01 % | 9.17 % | 9.60 % | 9.53 % |
| Total risk-based capital ratio | 14.58 % | 14.95 % | 10.93 % | 11.40 % | 10.78 % |

* - LHFS is Loans Held for Sale.
** - ORE is Other Real Estate.

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The following unaudited tables represent Trustmark's summary of quarterly operations for the years ended December 31, 2009 and 2008 ($ in thousands except per share data).

| 2009 | 1Q | 2Q | 3Q | 4Q |
|---|---|---|---|---|
| Interest income | $ 113,805 | $ 112,173 | $ 109,348 | $ 106,736 |
| Net interest income | 88,549 | 88,491 | 88,877 | 88,292 |
| Provision for loan losses | 16,866 | 26,767 | 15,770 | 17,709 |
| Noninterest income | 43,004 | 40,816 | 44,139 | 40,283 |
| Noninterest expense | 74,407 | 78,971 | 79,234 | 75,647 |
| Income before income taxes | 40,280 | 23,569 | 38,012 | 35,219 |
| Net income | 26,485 | 16,575 | 25,510 | 24,477 |
| Net income available to common shareholders | 23,359 | 13,443 | 22,370 | 13,877 |
| Earnings per common share | | | | |
| Basic | 0.41 | 0.23 | 0.39 | 0.23 |
| Diluted | 0.41 | 0.23 | 0.39 | 0.23 |

| 2008 | | | | |
|---|---|---|---|---|
| Interest income | $ 126,014 | $ 120,441 | $ 118,032 | $ 118,792 |
| Net interest income | 74,749 | 77,618 | 79,396 | 87,397 |
| Provision for loan losses | 14,243 | 31,012 | 14,473 | 16,684 |
| Noninterest income | 48,516 | 48,466 | 41,950 | 38,326 |
| Noninterest expense | 69,826 | 69,614 | 72,734 | 71,545 |
| Income before income taxes | 39,196 | 25,458 | 34,139 | 37,494 |
| Net income | 26,179 | 17,552 | 23,354 | 25,332 |
| Net income available to common shareholders | 26,179 | 17,552 | 23,354 | 23,979 |
| Earnings per share | | | | |
| Basic | 0.46 | 0.31 | 0.41 | 0.42 |
| Diluted | 0.46 | 0.31 | 0.41 | 0.42 |

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## ITEM 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "po "could," "future" or the negative of those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other "forward-looking" information. These forward-looking statements include, but are not limited to, statements relating to anticipated future operating and financial performance measures, including net interest margin, credit quality, business initiatives, growth opportunities and growth rates, among other things, and encompass any estimate, prediction, expectation, projection, opinion, anticipation, outlook or statement of belief included therein as well as the management assumptions underlying these forward-looking statements. You should be aware that the occurrence of the events described under the caption Item 1A. Risk Factors, in this report could have an adverse effect on our business, results of operations and financial condition. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary significantly from those anticipated, estimated, projected or expected.

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

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

### Executive Overview

In 2009, the national economy continued to face numerous challenging macro-economic conditions. The economy was in recession and experienced rising unemployment, declining home values, extremely low liquidity in the debt markets and declining values and high volatility in the equity markets. As a result of these conditions, consumer confidence and spending decreased substantially and asset values declined. The capital and earnings levels of numerous financial institutions were negatively affected and a number of financial institutions failed or merged, in some cases with government involvement, with stronger financial institutions.

During 2009, Management monitored carefully the impact of illiquidity in the financial markets, declining 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. Management implemented strategic decisions to reduce certain loan classifications, including construction, land development and other land loans and indirect auto loans. Throughout 2009, Trustmark and TNB's capital ratios exceeded the minimum levels required for it to be ranked well-capitalized, both prior to and after Trustmark's participation in the U.S. Treasury's TARP CPP.

During 2009, Management also monitored the trend of weakening commercial developments of residential real estate property values and increasing default rates, most of which is in the Florida Panhandle region. Trustmark's other markets have experienced less of a decline in values and a marginal increase in default rates to date. The non-Florida markets in which Trustmark operates did not experience the dramatic rise in real estate values prior to the recession as was prevalent in Florida and other sections of the country. As a result, the impact of the recession on property values in Trustmark's other markets has been less severe.

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In 2009, Trustmark did not make significant changes to its loan underwriting standards. Trustmark'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 adheres to its primary regulator's guidelines. As a result, TNB has been more restrictive 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.

During 2009, Management 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 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, TAF borrowings and brokered deposits.

On December 7, 2009, Trustmark completed a public offering of 6,216,216 shares of its common stock, including 810,810 shares issued pursuant to the exercise of the underwriters' over-allotment option, at a price of $18.50 per share. Trustmark received net proceeds of approximately $109.3 million after deducting underwriting discounts, commissions and estimated offering expenses. Proceeds from this offering were used in the redemption of Senior Preferred Stock discussed below.

TARP Capital Purchase Program

In the fourth quarter of 2008, Trustmark chose to participate in the TARP CPP in order to reinforce its strong capital position, advance the Treasury's efforts to facilitate additional lending in the markets where Trustmark operates, maintain its competitive advantage over its less well-capitalized competitors, support its foreclosure mitigation programs and support its general operations. Trustmark's decision to participate in the TARP CPP was also affected by discussions with its regulators, including the OCC, the Federal Reserve and the Treasury. Trustmark elected to participate in the TARP CPP as a healthy, well-capitalized bank.

As a participant in the TARP CPP, on November 21, 2008, Trustmark issued 215,000 shares of Senior Preferred Stock to the. Treasury, and Trustmark also issued to the Treasury a ten-year warrant (the Warrant) to purchase up to 1,647,931 shares of Trustmark's common stock, at an initial exercise price of $19.57 per share, subject to customary anti-dilution adjustments.

In the fourth quarter of 2009, Trustmark exited the TARP CPP. Following discussions with its federal banking regulators and the completion of the public offering of common stock discussed above, Trustmark redeemed all the Senior Preferred Stock from the Treasury on December 9, 2009. The amount paid by Trustmark to redeem the Senior Preferred Stock consisted of $215.0 million, which was equivalent to both the original issuance price and the liquidation value of the Senior Preferred Stock, plus a final accrued dividend of approximately $716.7 thousand. As a result of the redemption of the Senior Preferred Stock, in the fourth quarter of 2009, Trustmark incurred a one-time, non-cash charge of $8.2 million to net income available to common shareholders for the unaccreted discount recorded at the date of issuance of the Senior Preferred Stock. On December 30, 2009, Trustmark repurchased the Warrant from the Treasury for its fair value of $10.0 million.

Use of Capital

Based on analysis of the market conditions at the time of issuance, Trustmark determined that the proceeds of the Treasury investment in its Senior Preferred Stock initially would be best deployed in U.S. Government Agency mortgage-backed securities (MBS) until loan demand improved. Trustmark retained $10.0 million of the proceeds to provide for the 2009 dividend payments on the Senior Preferred Stock and invested the remaining $205.0 million in TNB. In turn, TNB invested the $205.0 million of the proceeds, along with other funds obtained to leverage the

TARP CPP investment, in MBS, pending deployment in more permanent uses. With these investments, Trustmark provided incremental liquidity to the residential mortgage markets and at the same time obtained products that generate cash flow. Trustmark is holding the MBS assets on its balance sheet as available for sale. Trustmark intends to utilize its cash flows, including those derived from its MBS investments and the proceeds of any sale or disposition of its MBS investments, to fund commercial and residential loans that meet Trustmark's long-standing prudent lending standards as the demand for high-quality loans rises in the markets it serves, as well as to advance foreclosure mitigation efforts and otherwise support its business.

Trustmark is committed to making credit available to the markets it serves and fulfilling the needs of its customers. In 2009, to insure that all lending growth opportunities were addressed, Trustmark restructured its Senior Loan Committee to form two new committees, composed of senior and executive management: the Commercial Loan Committee and the Real Estate Loan Committee. Additionally, senior executives were placed in lending roles specializing in particular loan products to address the needs of existing and prospective customers. In certain sectors, such as commercial lending, loan demand has diminished consistent with the overall economy as customers have taken a conservative direction and postponed investments. Conversely, residential mortgage activity increased in December 2008 and throughout 2009 in response to favorable interest rates and new Government Agency programs; nearly three quarters of this activity was in the form of refinancings, with the balance consisting of new purchases. While the TARP CPP funds were not segregated, and this increased lending was not directly traceable in a dollar-for-dollar manner to the TARP CPP, the strengthening of Trustmark's balance sheet during the year ended December 31, 2009 by the TARP CPP investment directly facilitated increased lending activity.

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In addition, Trustmark initiated programs and dedicated additional resources and staff to seek to mitigate foreclosure of primary residences on borrowers that are subject to adverse financial conditions in the current economic environment. Loss mitigation counselors and additional support staff were added to accommodate loss mitigation activity. During 2009, Trustmark utilized personnel in its collections department and conducted regular training of its personnel on foreclosure mitigation in order to respond to this need. In some cases, Trustmark may make deferred payment arrangements with such borrowers on a short-term basis. Likewise, Trustmark is following the Fannie Mae, Freddie Mac and GNMA guidelines for foreclosure moratoriums in its portfolio of loans serviced for others.

Loan modifications made to date have substantially all occurred on loans serviced for outside investors. To date, there have been comparatively less need for, or use of, loan modification programs on Trustmark's primary residence mortgage portfolio. This is a function of Trustmark's preference for shorter average loan terms and the aging of its portfolio, as well as adherence to its prudent lending standards. However, Trustmark is prepared for a potential increase in demand for loan modifications on its loans covering primary residences, and intends to carry out specific programs as needed. As for new residential mortgage loan originations, Trustmark follows, in substantially all situations, the underwriting standards of the government agencies. As those agencies have revised standards on new originations, so has Trustmark.

Effects of TARP CPP Participation

Prior to its participation in the TARP CPP, Trustmark and TNB exceeded all minimal regulatory capital ratios. In addition, TNB met applicable regulatory guidelines to be considered well-capitalized. At December 31, 2008, immediately following its participation in the TARP CPP program, Trustmark and TNB substantially exceeded all minimal regulatory capital requirements as listed below:

| | Trustmark | | TNB | |
|---|---|---|---|---|
| Tier 1 Leverage Ratio | 10.42 | % | 10.13 | % |
| Tier 1 Risk-Based Capital Ratio | 13.01 | % | 12.63 | % |
| Total Risk-Based Capital Ratio | 14.95 | % | 14.52 | % |

As previously mentioned, upon its successful public offering of common stock as well as the redemption of the Senior Preferred Stock and repurchase of the Warrant by Trustmark, at December 31, 2009 both Trustmark and TNB continued to substantially exceed all minimal regulatory capital requirements as listed below:

| | Trustmark | | TNB | |
|---|---|---|---|---|
| Tier 1 Leverage Ratio | 9.74 | % | 9.45 | % |
| Tier 1 Risk-Based Capital Ratio | 12.61 | % | 12.21 | % |
| Total Risk-Based Capital Ratio | 14.58 | % | 14.16 | % |

Trustmark's participation in the TARP CPP affected the income available to common shareholders in two ways: (1) prior to the redemption in full of the Senior Preferred Stock, Trustmark was prohibited from paying any dividend on the common stock other than regular quarterly cash dividends of not more than $0.23 per share of common stock, and (2) the dividend payments which were made on the Senior Preferred Stock to the Treasury had the effect of reducing the net income otherwise available to the common stockholders.

Trustmark complied with the executive compensation and corporate governance requirements of each of (i) the Emergency Economic Stabilization Act (EESA) of 2008, (ii) the American Recovery and Reinvestment Act of 2009 (ARRA), which was signed into law on February 17, 2009, and (iii) the Treasury guidance thereunder issued on June 10, 2009, during the period that the Senior Preferred Stock was held by the Treasury.

Furthermore, as required by EESA and the Securities Purchase Agreement, on November 11, 2008, Trustmark's Board of Directors approved a resolution to adopt an omnibus amendment to all compensation plans, which was in effect, pursuant to EESA, as amended, for the period that Trustmark's Senior Preferred Stock was outstanding. That amendment conformed all of Trustmark's benefit plans to the requirements of EESA and applied to any senior executive officer (SEO) thereunder, and included the following:

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Clawback Provision
Golden Parachute Limitation
Signed Consent by all SEOs

Pursuant to EESA, these amendments were effective only for so long as the Treasury held the Senior Preferred Stock. Thus, upon the redemption in full of the Senior Preferred Stock by Trustmark on December 9, 2009, these amendments ceased to be effective and the benefit plans reverted to their respective forms prior to Trustmark's participation in the TARP CPP.

As required by EESA and ARRA, Trustmark has limited the Section 162(m) tax deduction for executive compensation to $500,000 per year for any SEO for the fiscal years ended December 31, 2009 and 2008, and in future tax periods Trustmark will continue to limit the Section 162(m) tax deduction for executive compensation to $500,000 per year, or as prorated, for any SEO with respect to restricted stock granted in the fiscal years ended December 31, 2009 and 2008 that vest in such tax future periods. This legislation impacted two SEOs and was not considered material to Trustmark's results of operations or financial condition.

In addition, as required by EESA and ARRA and the regulations adopted thereunder, within 90 days of Treasury's purchase of the Senior Preferred Stock and the Warrant, an executive compensation risk assessment was performed by Trustmark's senior risk officers. Based on the materials reviewed and discussions with subject matter experts, Trustmark's senior risk officers concluded that the executive compensation and incentive program as then in effect did not encourage the SEOs to take unnecessary and excessive risks. The findings of this risk assessment were presented to the Human Resources Committee of Trustmark's Board of Directors on January 14, 2009, and the final Executive Compensation Risk Assessment Conclusion Memorandum was provided to this committee on February 18, 2009. A certification statement was included within the Human Resources Committee Report in the Trustmark 2009 Proxy Statement. In addition, the Human Resources Committee, which is composed entirely of independent directors, discussed Trustmark's compensation arrangements in light of such a risk assessment at least semi-annually during the period that the Senior Preferred Stock was held by the Treasury. Pursuant to EESA and ARRA, Trustmark ceased to be required to perform future executive compensation risk assessments upon its redemption in full of the Senior Preferred Stock.

As required by EESA, Trustmark's 2009 Proxy Statement included a nonbinding shareholder vote to provide advisory approval of the compensation of Trustmark's executives.

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. These critical accounting policies are described in detail below.

For additional information regarding the accounting policies discussed below, please see the notes to Trustmark's Consolidated Financial Statements set forth in Item 8 – Financial Statements and Supplementary Data.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for estimated loan losses charged against net income.  The allowance for loan losses is maintained at a level believed adequate by management, based on estimated probable losses within the existing loan portfolio.  Each such evaluation is inherently subjective, as it requires a range of estimates, assumptions and judgments as to the facts and circumstances of the particular situation, including the amounts and timings of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

Trustmark's allowance for probable loan loss methodology is based on guidance provided in SEC Staff Accounting Bulletin (SAB) No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues," as well as on other regulatory guidance.  The allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 310 "Receivables," based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with FASB ASC Topic 450, "Contingencies," based on historical loan loss experience for similar loans with similar characteristics and trends; and (iii) qualitative risk valuation allowances determined in accordance with FASB ASC Topic 450 based on general economic conditions and other qualitative risk factors, both internal and external, to Trustmark.  Each of these elements calls for estimates, assumptions and judgments, as described below.

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Loans-Specific Valuation Allowances

Valuation allowances for probable losses on specific commercial loans are based on an ongoing analysis and evaluation of classified loans. Loans are classified based on Trustmark's internal credit risk grading process that evaluates, among other things: (i) the obligor's ability and willingness to repay; (ii) the value of any underlying collateral; (iii) the ability of any guarantor to perform its payment obligation, and (iv) the economic environment and industry in which the borrower operates. Once a loan is classified, it is subject to periodic review to determine whether or not the loan is impaired. If determined to be impaired, the loan is evaluated using one of the valuation criteria permitted under FASB ASC Topic 310. The amount of impairment, if any, becomes a specific allocated portion of the allowance for loan losses and segregated from any pool of loans. Specific valuation allowances are determined based upon analysis of the factors identified above, among other things. If, after review, a specific valuation allowance is not assigned to the loan and the loan is not considered to be impaired, the loan remains with a pool of similar risk-rated loans that is assigned a valuation allowance appropriate for non-impaired classified loans, based on Trustmark's internal loan grading system.

Historical Valuation Allowances

Historical valuation allowances are calculated for pools of loans based on the historical loss experience of specific types of loans and Trustmark's internal commercial loan grading system. Trustmark calculates historical loss ratios for pools of loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are periodically updated based on subsequent charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. Trustmark's pools of similar loans include consumer loans and 1-4 family residential mortgages.

Qualitative Risk Valuation Allowances

These allowances are based on general economic conditions and other qualitative factors, both internal and external to the bank. These allowances are determined by evaluating a range of potential factors, which may include one or more of the following: (i) the experience, ability and effectiveness of the bank's lending management and staff assigned to the loan; (ii) adherence to Trustmark's loan policies, procedures and internal controls; (iii) impact of recent performance trends; (iv) national and regional economic trends and conditions; (v) concentrations of commercial and consumer credits in Trustmark's loan portfolio; (vi) collateral, financial and underwriting exception trends by region; (vii) the impact of recent significant natural disasters or catastrophes and (viii) the impact of recent acquisitions.

Management evaluates the degree of risk that these components have on the quality of the loan portfolio not less frequently than quarterly. The results are then input into a "qualitative factor allocation matrix" to determine an appropriate qualitative risk allowance.

A significant shift in one or more factors identified above could result in a material change to Trustmark's allowance for loan losses. For example, if there were changes in one or more of these estimates, assumptions or judgments as they relate to a portfolio of commercial loans, Trustmark could find that it needs to increase the level of future provisions for possible loan losses in respect of that portfolio. Additionally, credit deterioration of specific borrowers due to changes in these factors could cause the risk rating of those borrowers' commercial loans on Trustmark's internal loan grading system to shift to a more severe risk rating. As a result, Trustmark could find that it needs to increase the level of future provisions for possible loan losses in respect of these loans. Given the interdependent and highly factual nature of many of these estimates, assumptions and judgments, it is not possible to provide meaningful quantitative estimates of the impact of any such potential shifts.

Mortgage Servicing Rights

Trustmark recognizes as an asset the rights to service mortgage loans for others (mortgage servicing rights, or MSR) with respect to loans originated by Trustmark or acquired through its wholesale network. Trustmark carries MSR on its balance sheet at fair value.

Trustmark determines the fair value of MSR using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, ancillary income and late fees.

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To reduce the sensitivity of earnings to interest rate fluctuations, Trustmark utilizes derivative instruments such as interest rate futures contracts and exchange-traded options to achieve a return that is intended to substantially offset the changes in the fair value of MSR attributable to interest rates, depending on the amount of MSR hedged. Trustmark may choose not to fully hedge the MSR, partly because origination volume tends to act as a natural hedge. For example, as interest rates decline, the fair value of MSR generally decreases and fees from new originations tend to increase. Conversely, as interest rates increase, the fair value of the MSR generally increases, while fees from new originations tend to decline.

Trustmark utilizes a dynamic and sophisticated model, administered by a third party, to estimate the fair value of its MSR. Management reviews all significant assumptions quarterly. Mortgage loan prepayment speed, a key assumption in the model, is the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate used to determine the present value of estimated future net servicing income, another key assumption in the model, is an estimate of the required rate of return investors in the market would require for an asset with similar risk. Both assumptions can, and generally will, change as market conditions and interest rates change.

By way of example, an increase in either the prepayment speed or discount rate assumption will result in a decrease in the fair value of the MSR, while a decrease in either assumption will result in an increase in the fair value of the MSR. In recent years, there have been significant market-driven fluctuations in loan prepayment speeds and discount rates. These fluctuations can be rapid and may continue to be significant. Therefore, estimating prepayment speed and/or discount rates within ranges that market participants would use in determining the fair value of MSR requires significant management judgment.

At December 31, 2009, MSR fair value was approximately $50.5 million. The impact on MSR fair value at that date of a 10% adverse change in prepayment speed or a 100 basis point increase in discount rate would be a decline in fair value of approximately $2.2 million and $1.4 million, respectively. Changes of equal magnitude in the opposite direction would produce increases in fair value in the same respective amounts.

Goodwill and Identifiable Intangible Assets

Trustmark records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value as required by FASB ASC Topic 805, "Business Combinations." The carrying amount of goodwill at December 31, 2009 totals $246.7 million for the General Banking segment and $44.4 million for the Insurance segment, a consolidated total of $291.1 million. Trustmark's goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Trustmark's identifiable intangible assets, which totaled $19.8 million at December 31, 2009, are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount.

The initial recording and subsequent impairment testing of goodwill requires subjective judgments concerning estimates of the fair value of the acquired assets. The goodwill impairment test is performed in two phases. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure, or a second step, compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Trustmark performed an annual impairment test of goodwill for reporting units contained in both the General Banking and Insurance segments as of October 1, 2009, 2008 and 2007, respectively, which indicated that no impairment charge was required. The impairment test for the General Banking reporting unit utilized valuations based on comparable deal values for financial institutions while the test for the Insurance reporting unit utilizes varying valuation scenarios for the multiple of earnings before interest, income taxes, depreciation and amortization (EBITDA) method based on recent acquisition activity. At December 31, 2009, Trustmark performed an additional impairment due to recent changes in market conditions for reporting units included in both the General Banking and Insurance segments and concluded that no impairment charge was required. Significant changes in future profitability and value of our reporting units could affect Trustmark's impairment evaluation.

The carrying amount of Trustmark's identifiable intangible assets subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition. That assessment shall be based on the carrying amount of the intangible assets subject to amortization at the date it is tested for recoverability. Intangible assets subject to amortization shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Fair value may be determined using market prices, comparison to similar assets, market multiples and other determinants. Factors that may significantly affect the estimates include, among others, competitive forces, customer behavior and attrition, changes in revenue growth trends and specific industry or market sector conditions. Other key judgments in accounting for intangibles include determining the useful life of the particular asset and classifying assets as either goodwill (which does not require amortization) or identifiable intangible assets (which does require amortization).

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Other Real Estate Owned

Other real estate owned, consisting of assets that have been acquired through foreclosure, 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. Other real estate owned is revalued on an annual basis or more often if market conditions necessitate. Valuation adjustments required at foreclosure are charged to the allowance for loan losses. Subsequent to foreclosure, losses on the periodic revaluation of the property are charged to net income as other expense. Significant judgments and complex estimates are required in estimating the fair value of other real estate, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during 2009 and 2008. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate.

Defined Benefit Plans

Trustmark's plan assets, projected benefit liabilities and pension cost are determined utilizing actuarially-determined present value calculations. The valuation of the projected benefit obligation and net periodic pension expense for Trustmark's plans (Capital Accumulation Plan and Supplemental Retirement Plan) requires management (with the assistance of third-party actuaries) to make estimates regarding the amount and timing of expected cash outflows. Several variables affect these calculations, including (i) size and characteristics of the associate population, (ii) discount rate, (iii) expected long-term rate of return on plan assets and (iv) recognition of actual returns on plan assets. Below is a brief description of these variables and the effect they have on pension cost.

Population and Characteristics of Associates. Pension cost is directly related to the number of associates covered by the plan and characteristics such as salary, age, years of service and benefit terms. In an effort to control expenses, the Board voted to freeze plan benefits effective May 15, 2009. 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. At December 31, 2009, the pension plan census totaled 2,963 associates.

Discount Rate. The discount rate utilized in determining the present value of the future benefit obligation is currently 5.50%. The discount rate for each plan is determined by matching the expected cash flows of each plan to a yield curve based on long term, high quality fixed income debt instruments available as of the measurement date (for the 2009 fiscal year the measurement date was December 31, 2009). The discount rate is reset annually on the measurement date to reflect current economic conditions.

If Trustmark assumes a 1.00% increase or decrease in the discount rate for Trustmark's defined benefit plans and kept all other assumptions constant, the benefit cost associated with these plans would decrease or increase by approximately $660 thousand and $770 thousand, respectively.

Expected Long-Term Rate of Return on Plan Assets. Based on historical experience and market projection of the target asset allocation set forth in the investment policy for the Capital Accumulation Plan, the current pre-tax expected rate of return on the plan assets is 8%. This expected rate of return is dependent upon the asset allocation decisions made with respect to plan assets.

Annual differences, if any, between expected and actual return are included in the unrecognized net actuarial gain or loss amount. Trustmark generally amortizes any cumulative unrecognized net actuarial gain or loss in excess of 10% of the greater of the projected benefit obligation or the fair value of the plan assets.

If Trustmark assumes a 1.00% increase or decrease in the expected long-term rate of return for the Capital Accumulation Plan, holding all other actuarial assumptions constant, the pension cost would decrease or increase by approximately $760 thousand.

Recognition of Actual Asset Returns. Trustmark utilizes the provision of FASB ASC Topic 715, which allow for the use of asset values that smoothes investment gains and losses over a period of up to five years. This could partially mitigate the impact of short-term gains or losses on reported net income.

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Other Actuarial Assumptions. To estimate the projected benefit obligation, actuarial assumptions are required to be made by management, including mortality rate, retirement rate, disability rate and the rate of compensation increases. These factors do not change significantly over time, so the range of assumptions and their impact on net periodic pension expense is generally limited.

Contingent Liabilities

Trustmark estimates contingent liabilities based on management's evaluation of the probability of outcomes and their ability to estimate the range of exposure. As stated in FASB ASC Topic 450, a liability is contingent if the amount is not presently known but may become known in the future as a result of the occurrence of some uncertain future event. Accounting standards require that a liability be recorded if management determines that it is probable that a loss has occurred, and the loss can be reasonably estimated. In addition, it must be probable that the loss will be confirmed by some future event. As part of the estimation process, management is required to make assumptions about matters that are, by their nature, highly uncertain. The assessment of contingent liabilities, including legal contingencies and income tax liabilities, involves the use of critical estimates, assumptions and judgments. Management's estimates are based on their belief that future events will validate the current assumptions regarding the ultimate outcome of these exposures. However, there can be no assurance that future events, such as court decisions or Internal Revenue Service positions, will not differ from management's assessments. Whenever practicable, management consults with outside experts (attorneys, consultants, claims administrators, etc.) to assist with the gathering and evaluation of information related to contingent liabilities.

Financial Highlights

Net income available to common shareholders totaled $73.0 million for the year ended December 31, 2009, compared with $91.1 million for 2008 and $108.6 million for 2007. For 2009, Trustmark's basic and diluted earnings per common share were $1.26 compared with $1.59 for 2008 and $1.88 for 2007. At December 31, 2009, Trustmark reported gross loans, including loans held for sale, of $6.546 billion, total assets of $9.526 billion, total deposits of $7.188 billion and total shareholders' equity of $1.110 billion. Trustmark's financial performance for 2009 resulted in a return on average tangible common shareholders' equity of 10.80%, a return on common equity of 7.22% and a return on assets of 0.98%. These compared with 2008 ratios of 14.88% for return on average tangible common shareholders' equity, 9.62% for return on common equity and 1.01% for return on assets, while in 2007 the return on average tangible common shareholders' equity was 19.17%, the return on common equity was 12.02% and the return on assets was 1.23%.

Net income available to common shareholders for 2009 decreased $18.0 million, or 19.8% compared to 2008. The decrease was primarily the result of preferred stock dividends and the accretion of preferred stock discount, $8.2 million of which was accelerated at the payoff of TARP CPP, which reduced net income available to common shareholders by approximately $20.0 million. Excluding preferred stock dividends and the accretion of preferred stock discount, net income increased $630 thousand, or 0.7%, compared to 2008. This improvement resulted from an increase in net interest income of $35.0 million offset by a decrease in noninterest income of $9.0 million and an increase in noninterest expense of $24.5 million. The decrease in noninterest income was due largely to the reduction in other, net of $7.7 million, which resulted from gains booked during 2008 related to the sale of MasterCard shares ($5.4 million) as well as the Visa initial public offering ($1.0 million). The growth in noninterest expense primarily resulted from an increase in other expense of $24.1 million, which can be attributed to additional costs related to FDIC deposit insurance assessments ($12.3 million) as well as real estate foreclosures ($10.4 million). For additional information on the changes in noninterest income and noninterest expense, please see accompanying sections included in Results of Operations.

Trustmark's 2009 provision for loan losses totaled $77.1 million, a slight increase of $700 thousand when compared to 2008, while total charge-offs increased to $80.7 million during 2009, compared to $71.8 million for 2008 and $26.8 million for 2007. Total nonperforming assets were $231.3 million at December 31, 2009, an increase of $78.7 million compared to December 31, 2008. In addition, the percentage of loans that are 30 days or more past due and nonaccrual loans rose in 2009 to 4.49%, from 3.20% in 2008 and 2.37% in 2007. These measures are predominantly attributable to economic difficulties in the Florida Panhandle market.

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.

Significant Nonrecurring Transactions

Presented below are adjustments to net income as reported in accordance with U.S. GAAP resulting from significant nonrecurring items occurring during the periods presented. Management believes this information will help readers compare Trustmark's current results to those of prior periods as presented in the accompanying selected financial data table ($ in thousands, except for per share amounts) and the audited consolidated financial statements. Readers are cautioned that these adjustments are not permitted under GAAP. Trustmark encourages readers to consider its audited consolidated financial statements and the notes related thereto in their entirety, and not to rely on any single financial measure.

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| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Amount | Basic EPS | Amount | Basic EPS | Amount | Basic EPS |
| Net Income available to common shareholders (GAAP) | $73,049 | $1.263 | $91,064 | $1.589 | $108,595 | $1.882 |
| Significant nonrecurring transactions (net of taxes): | | | | | | |
| Accelerated preferred stock accretion | 8,234 | 0.142 | - | - | - | - |
| FDIC special assessment | 2,700 | 0.047 | - | - | - | - |
| Capital accumulation plan curtailment gain | (1,169) | (0.020) | - | - | - | - |
| MasterCard Class A common | - | - | (3,308) | (0.058) | - | - |
| Visa litigation contingency | - | - | (936) | (0.016) | 494 | 0.009 |
| Hurricane Katrina | - | - | - | - | (665) | (0.012) |
| Correction of accounting error | - | - | - | - | (1,623) | (0.028) |
| | 9,765 | 0.169 | (4,244) | (0.074) | (1,794) | (0.031) |
| Net Income available to common shareholders adjusted for significant nonrecurring transactions (Non-GAAP) | $82,814 | $1.432 | $86,820 | $1.515 | $106,801 | $1.851 |

Accelerated Preferred Stock Accretion

On December 9, 2009, Trustmark completed the repurchase of its 215,000 shares of Senior Preferred Stock from the Treasury at a purchase price of $215.0 million plus a final accrued dividend of $716.7 thousand.  The repurchase of the Senior Preferred Stock resulted in a one-time, non-cash charge of $8.2 million to net income available to common shareholders in Trustmark's fourth quarter financial statements for the unaccreted discount recorded at the date of issuance of the Senior Preferred Stock.

FDIC Special Assessment

In May 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009.  This special assessment was implemented in light of the FDIC's projections of a substantially higher rate of institution failures during 2009 and in the next few years, which would create a significant decrease in the reserve ratio of the Deposit Insurance Fund (DIF).  The funding from this special assessment, along with higher assessment rates, would help restore the DIF to its regulatory required ratio during the next seven years.  Trustmark's special assessment resulted in an after-tax expense of $2.7 million.

Capital Accumulation Plan Curtailment Gain

In an effort to control expenses, Trustmark's Board voted to freeze plan benefits of the Capital Accumulation Plan effective May 15, 2009.  During the second quarter of 2009, Trustmark recorded an after-tax curtailment gain of  $1.2 million as a result of the freeze in plan benefits due to the recognition of the prior service credits previously included in accumulated other comprehensive loss.

MasterCard Class A Common

During the second quarter of 2008, MasterCard offered Class B shareholders the right to convert their stock into marketable Class A shares. Trustmark exercised its right to convert its shares and sold them through a liquidation program. The conversion and sale resulted in an after-tax gain of $3.3 million.

Visa Litigation Contingency

In the first quarter of 2008, Trustmark recognized an after-tax gain of $936 thousand resulting from the Visa initial public offering. This gain more than offsets an after-tax accrual of $494 thousand that Trustmark recorded in the fourth quarter of 2007 for the Visa litigation contingency relating to the Visa USA Inc. antitrust lawsuit settlement with American Express and other pending Visa litigation (reflecting Trustmark's share as a Visa member). At December 31, 2009 and 2008, Trustmark's contingent obligation for the Visa litigation, net of Visa's litigation escrow account, was $225 thousand and $355 thousand, respectively.

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Hurricane Katrina

In the third quarter of 2005, immediately following the aftermath of Hurricane Katrina, Trustmark estimated possible pre-tax losses resulting from this storm of $11.7 million. Since 2005, Trustmark has continually reevaluated its estimates for probable losses resulting from Hurricane Katrina. During 2007, Trustmark reduced its allowance for loan losses by $0.6 million and other reserves by $0.4 million on a pretax basis resulting in an increase to Trustmark's net income of $0.7 million, or $0.01 per share. At December 31, 2008, the allowance for loan losses included $319 thousand related to possible Hurricane Katrina losses. At December 31, 2009, Management determined that no specific Katrina allowance for loan losses were needed based on the immaterial losses experienced during 2009.

Correction of Accounting Error

Trustmark's consolidated financial statements for the fourth quarter of 2007 included a pre-tax benefit of $3.2 million for the correction of an error relating to the amortization of deferred loan fees, which is included in interest income on loans. Of this amount, $2.6 million arose in prior periods, while $593 thousand was incurred over the first three quarters of 2007. Trustmark's Management as well as the Audit and Finance Committee of the Board of Directors reviewed this accounting error utilizing SEC SAB Nos. 99 and 108 and determined the impact of this error was not material to 2007 or prior period consolidated financial statements.

Government Programs

During the fourth quarter of 2008, Trustmark participated in two government programs. The first was the TARP CPP sponsored by the Treasury, and the second was the TAF sponsored by the Federal Reserve Bank of New York. During the fourth quarter of 2009, Trustmark repurchased the Senior Preferred Stock and Warrant from the Treasury, which ended its involvement in the TARP CPP. In addition, at December 31, 2009, Trustmark no longer participated in TAF in favor of other funding sources and had no TAF borrowings outstanding.

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.

In addition, Trustmark presents in this report a table which illustrates the impact of significant nonrecurring transactions on net income available to common shareholders as reported under GAAP. For this table, please see Financial Highlights – Significant Nonrecurring Transactions shown above ..

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Reconciliation of Non-GAAP Financial Measures
($ in thousands)

| | | Years Ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| TANGIBLE COMMON EQUITY AVERAGE BALANCES | | | | |
| Total shareholders' equity | | $ 1,205,642 | $ 970,061 | $ 903,375 |
| Less Preferred stock | | (193,616 ) | (22,971 ) | - |
| Total average common equity | | 1,012,026 | 947,090 | 903,375 |
| Less: Goodwill | | (291,104 ) | (291,153 ) | (290,688 ) |
| Identifiable intangible assets | | (21,920 ) | (26,069 ) | (30,653 ) |
| Total average tangible common equity | | $ 699,002 | $ 629,868 | $ 582,034 |
| | | | | |
| PERIOD END BALANCES | | | | |
| Total shareholders' equity | | $ 1,110,060 | $ 1,178,466 | $ 919,636 |
| Less: Preferred stock | | - | (205,126 ) | - |
| Total common equity | | 1,110,060 | 973,340 | 919,636 |
| Less: Goodwill | | (291,104 ) | (291,104 ) | (291,177 ) |
| Identifiable intangible assets | | (19,825 ) | (23,821 ) | (28,102 ) |
| Total tangible common equity | (a) | $ 799,131 | $ 658,415 | $ 600,357 |
| | | | | |
| TANGIBLE ASSETS | | | | |
| Total assets | | $ 9,526,018 | $ 9,790,909 | $ 8,966,802 |
| Less: Goodwill | | (291,104 ) | (291,104 ) | (291,177 ) |
| Identifiable intangible assets | | (19,825 ) | (23,821 ) | (28,102 ) |
| Total tangible assets | (b) | $ 9,215,089 | $ 9,475,984 | $ 8,647,523 |
| | | | | |
| Risk-weighted assets | (c) | $ 6,918,802 | $ 7,294,633 | $ 7,368,865 |
| | | | | |
| NET INCOME ADJUSTED FOR INTANGIBLE AMORTIZATION | | | | |
| Net income available to common shareholders | | $ 73,049 | $ 91,064 | $ 108,595 |
| Plus: Intangible amortization net of tax | | 2,469 | 2,644 | 3,000 |
| Net income adjusted for intangible amortization | | $ 75,518 | $ 93,708 | $ 111,595 |
| | | | | |
| Period end common shares outstanding | (d) | 63,673,839 | 57,324,737 | 57,272,408 |
| | | | | |
| TANGIBLE COMMON EQUITY MEASUREMENTS | | | | |
| Return on average tangible common equity 1 | | 10.80 % | 14.88 % | 19.17 % |
| Tangible common equity/tangible assets | (a)/(b) | 8.67 % | 6.95 % | 6.94 % |
| Tangible common equity/risk-weighted assets | (a)/(c) | 11.55 % | 9.03 % | 8.15 % |
| Tangible common book value | (a)/(d)*1,000 | $ 12.55 | $ 11.49 | $ 10.48 |
| | | | | |
| TIER 1 COMMON RISK-BASED CAPITAL | | | | |
| Total shareholders' equity | | $ 1,110,060 | $ 1,178,466 | $ 919,636 |
| Eliminate qualifying AOCI | | 1,624 | 14,717 | 14,451 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Qualifying tier 1 capital | | | 68,000 | | | 68,000 | | | 68,000 | |
| Disallowed goodwill | | | (291,104 | ) | | (291,104 | ) | | (291,177 | ) |
| Adj to goodwill allowed for deferred taxes | | | 8,805 | | | 7,395 | | | - | |
| Other disallowed intangibles | | | (19,825 | ) | | (23,821 | ) | | (28,102 | ) |
| Disallowed servicing intangible | | | (5,051 | ) | | (4,288 | ) | | (6,719 | ) |
| Total tier 1 capital | | $ | 872,509 | | $ | 949,365 | | $ | 676,089 | |
| Less: Qualifying tier 1 capital | | | (68,000 | ) | | (68,000 | ) | | (68,000 | ) |
| Preferred stock | | | - | | | (205,126 | ) | | - | |
| Total tier 1 common capital | (e) | $ | 804,509 | | $ | 676,239 | | $ | 608,089 | |
| | | | | | | | | | | |
| Tier 1 common risk-based capital ratio | (e)/(c) | | 11.63 | % | | 9.27 | % | | 8.25 | % |

1 Calculation = net income adjusted for intangible amortization/total average tangible common equity

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## 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. Nonaccruing loans 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 2009 increased $35.6 million, or 10.9%, when compared with 2008. Trustmark expanded its net interest margin during 2009 through diligent management of its assets and liabilities. The increase in the net interest margin was primarily due to three main factors; 1) disciplined deposit pricing afforded to Trustmark due to a strong liquidity position, 2) prudent loan pricing, including the use of minimum loan rates/floors and 3) the purchase of fixed rate securities in 2008, of which were funded mostly with declining short-term floating rate liabilities. The combination of these factors resulted in a NIM of 4.25% during 2009, a 24 basis point increase when compared with 2008.

Average interest-earning assets for 2009 were $8.570 billion, compared with $8.179 billion for 2008, an increase of $391.1 million. This growth was primarily due to an increase in average total securities of $645.7 million, or 59.2% during 2009, as a result of management's strategic focus on increasing its holding of certain investment securities in order to capitalize upon advantageous market conditions. During 2009, the overall yield on securities increased by 17 basis points when compared to 2008 due to purchases of securities in a higher rate environment and a slightly longer duration of the securities purchased. Average total loans decreased $249.0 million in 2009 when compared to 2008, which reflects Trustmark's continued efforts to reduce exposure to construction and land development lending and the decision to discontinue indirect auto financing. Due to a decrease in interest rates during 2009, the yield on loans decreased 88 basis points when compared to 2008. As a result of these factors, interest income-FTE decreased $40.6 million, or 8.3%, when 2009 is compared with 2008. The impact of these changes is also illustrated by the decline in the yield on total earning assets, which fell from 6.02% in 2008 to 5.27% in 2009, a decrease of 75 basis points.

Average interest-bearing liabilities for 2009 totaled $6.673 billion compared with $6.614 billion for 2008, an increase of $59.1 million, or 0.9%. Management's continued strategy of disciplined deposit pricing resulted in a modest 1.8% decrease in interest-bearing deposits during 2009 while the combination of federal funds purchased, securities sold under repurchase agreements and other borrowings increased by 15.6%. Due to decreased funding costs, as well as the continued availability of low-cost wholesale funding sources, the overall yield on liabilities declined 116 basis points in 2009 when compared with 2008. As a result of these factors, total interest expense for 2009 decreased $76.3 million, or 46.5%, when compared with 2008.

Net interest income-FTE for 2008 increased $20.6 million, or 6.7%, when compared with 2007. Trustmark expanded its net interest margin while in a falling rate environment during 2008. This was accomplished through deposit pricing discipline afforded to Trustmark due to a strong liquidity position, the purchase of fixed rate securities throughout the year, and a widening in the spread between LIBOR (reflecting yields Trustmark received on investment securities) and the Fed Funds rate (reflecting yields Trustmark paid on floating rate deposits) that has since dissipated. The combination of these factors resulted in a NIM of 4.01% during 2008, a 10 basis point increase when compared with 2007.

Average interest-earning assets for 2008 were $8.179 billion, compared with $7.878 billion for 2007, an increase of $301.1 million. The increase was primarily due to an increase in average total securities during 2008, which increased $185.1 million, or 20.4%, relative to 2007, that resulted from management's strategic focus in 2008 on increasing its holding of certain investment securities. Also, average total loans increased $129.3 million in 2008 when compared to 2007. However, due to a decrease in interest rates during 2008, the yield on loans decreased 110 basis points when compared to 2007. Securities purchased in 2008 provided higher yields when compared to previous periods partially due to a slightly longer duration of the securities portfolio. During 2008, the overall yield on securities increased by 35 basis points when compared to 2007. This improvement helped to offset decreasing loan yields seen during the periods discussed above. The combination of these factors resulted in a decline in interest income-FTE of $57.6 million, or 10.5%, when 2008 is compared with 2007. The impact of these factors is also illustrated by the yield on total earning assets decreasing from 6.98% in 2007 to 6.02% in 2008, a decrease of 96 basis points.

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Average interest-bearing liabilities for 2008 totaled $6.614 billion compared with $6.357 billion for 2007, an increase of $257.4 million, or 4.0%. However, the mix of these liabilities has changed when these two years are compared. During 2008, Management's strategy of disciplined deposit pricing resulted in a modest 1.3% increase in interest-bearing deposits while the combination of federal funds purchased, securities sold under repurchase agreements and other borrowings increased by 22.4%. The impact of the change in liability mix, as well as lower interest rates, resulted in a 133 basis point decrease in the overall yield on liabilities when 2008 is compared with 2007. As a result of these factors, total interest expense for 2008 decreased $78.2 million, or 32.3%, when compared with 2007.

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Yield/Rate Analysis Table
($ in thousands)

| | Years Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2007 | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest |
| Assets | | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Federal funds sold and securities purchased under reverse repurchase agreements | $15,077 | $66 | 0.44% | $23,422 | $502 | 2.14% | $40,850 | $2,147 |
| Securities available for sale: | | | | | | | | |
| Taxable | 1,411,275 | 71,363 | 5.06% | 794,443 | 37,257 | 4.69% | 573,940 | 22,367 |
| Nontaxable | 75,516 | 3,982 | 5.27% | 38,188 | 2,218 | 5.81% | 50,763 | 3,539 |
| Securities held to maturity: | | | | | | | | |
| Taxable | 191,732 | 9,352 | 4.88% | 182,373 | 8,904 | 4.88% | 195,468 | 9,417 |
| Nontaxable | 58,526 | 4,247 | 7.26% | 76,304 | 5,648 | 7.40% | 86,030 | 6,404 |
| Loans (including loans held for sale) | 6,773,768 | 361,346 | 5.33% | 7,022,747 | 436,064 | 6.21% | 6,893,402 | 504,04 |
| Other earning assets | 43,925 | 1,414 | 3.22% | 41,251 | 1,822 | 4.42% | 37,133 | 2,116 |
| Total interest-earning assets | 8,569,819 | 451,770 | 5.27% | 8,178,728 | 492,415 | 6.02% | 7,877,586 | 550,03 |
| Cash and due from banks | 214,637 | | | 245,748 | | | 287,113 | |
| Other assets | 839,066 | | | 792,835 | | | 753,503 | |
| Allowance for loan losses | (103,080 ) | | | (86,124 ) | | | (72,365 ) | |
| Total Assets | $9,520,442 | | | $9,131,187 | | | $8,845,837 | |
| | | | | | | | | |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Interest-bearing demand deposits | $1,133,498 | 9,515 | 0.84% | $1,215,668 | 20,742 | 1.71% | $1,186,683 | 39,217 |
| Savings deposits | 1,821,086 | 10,613 | 0.58% | 1,776,397 | 23,032 | 1.30% | 1,708,378 | 38,977 |
| Time deposits | 2,535,028 | 58,758 | 2.32% | 2,598,472 | 96,148 | 3.70% | 2,625,327 | 122,18 |
| Federal funds purchased and securities sold under repurchase agreements | 621,638 | 1,133 | 0.18% | 626,767 | 10,393 | 1.66% | 447,438 | 20,224 |
| Short-term borrowings | 371,173 | 2,465 | 0.66% | 276,974 | 7,032 | 2.54% | 269,102 | 13,723 |
| Long-term FHLB advances | 70,890 | 494 | 0.70% | - | - | - | - | - |
| Subordinated notes | 49,756 | 2,894 | 5.82% | 49,724 | 2,894 | 5.82% | 49,692 | 2,894 |
| Junior subordinated debt securities | 70,104 | 1,981 | 2.83% | 70,104 | 3,878 | 5.53% | 70,104 | 5,144 |
| Total interest-bearing liabilities | 6,673,173 | 87,853 | 1.32% | 6,614,106 | 164,119 | 2.48% | 6,356,724 | 242,36 |
| Noninterest-bearing demand deposits | 1,522,300 | | | 1,412,312 | | | 1,455,494 | |
| Other liabilities | 119,327 | | | 134,708 | | | 130,244 | |
| Shareholders' equity | 1,205,642 | | | 970,061 | | | 903,375 | |
| Total Liabilities and Shareholders' Equity | $9,520,442 | | | $9,131,187 | | | $8,845,837 | |
| | | | | | | | | |
| Net Interest Margin | | 363,917 | 4.25% | | 328,296 | 4.01% | | 307,67 |

| | | | |
|---|---|---|---|
| Correction of accounting error | - | - | 2,628 |
| Less tax equivalent adjustments: | | | |
| Investments | 2,880 | 2,753 | 3,480 |
| Loans | 6,828 | 6,383 | 6,038 |
| Net Interest Margin per Income Statements | $354,209 | $319,160 | $300,78 |

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The table below shows the change from year to year for each component of the tax equivalent net interest margin in the amount generated by volume changes and the amount generated by changes in the yield or rate (tax equivalent basis):

| Volume/Rate Analysis Table ($ in thousands) | 2009 Compared to 2008 Increase (Decrease) Due To: | | | 2008 Compared to 2007 Increase (Decrease) Due To: | | |
|---|---|---|---|---|---|---|
| | Volume | Yield/ Rate | Net | Volume | Yield/ Rate | Net |
| Interest earned on: | | | | | | |
| Federal funds sold and securities purchased under reverse repurchase agreements | $(135) | $(301) | $(436) | $(688) | $(957) | $(1,645) |
| Securities available for sale: | | | | | | |
| Taxable | 30,961 | 3,145 | 34,106 | 9,750 | 5,140 | 14,890 |
| Nontaxable | 1,988 | (224) | 1,764 | (790) | (531) | (1,321) |
| Securities held to maturity: | | | | | | |
| Taxable | 448 | - | 448 | (630) | 117 | (513) |
| Nontaxable | (1,296) | (105) | (1,401) | (722) | (34) | (756) |
| Loans, net of unearned income | (14,953) | (59,765) | (74,718) | 9,277 | (77,256) | (67,979) |
| Other earning assets | 112 | (520) | (408) | 217 | (511) | (294) |
| Total interest-earning assets | 17,125 | (57,770) | (40,645) | 16,414 | (74,032) | (57,618) |
| | | | | | | |
| Interest paid on: | | | | | | |
| Interest-bearing demand deposits | (1,317) | (9,910) | (11,227) | 930 | (19,405) | (18,475) |
| Savings deposits | 572 | (12,991) | (12,419) | 1,487 | (17,432) | (15,945) |
| Time deposits | (2,297) | (35,093) | (37,390) | (1,242) | (24,791) | (26,033) |
| Federal funds purchased and securities sold under repurchase agreements | (84) | (9,176) | (9,260) | 6,113 | (15,944) | (9,831) |
| Short-term borrowings | 1,841 | (6,408) | (4,567) | 390 | (7,081) | (6,691) |
| Long-term FHLB advances | 494 | - | 494 | - | - | - |
| Subordinated notes | - | - | - | - | - | - |
| Junior subordinated debt securities | - | (1,897) | (1,897) | 763 | (2,029) | (1,266) |
| Total interest-bearing liabilities | (791) | (75,475) | (76,266) | 8,441 | (86,682) | (78,241) |
| Change in net interest income on a tax equivalent basis | $17,916 | $17,705 | $35,621 | $7,973 | $12,650 | $20,623 |

The change in interest due to both volume and yield/rate has been allocated to change due to volume and change due to yield/rate in proportion to the absolute value of the change in each. Tax-exempt income has been adjusted to a tax equivalent basis using a tax rate of 35% for each of the three years presented. The balances of nonaccrual loans and related income recognized have been included for purposes of these computations.

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 2009 totaled $77.1 million, or 1.14% of average loans, compared with $76.4 million in 2008 and $23.8 million in 2007.

Provision for Loan Losses

| ($ in thousands) | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Florida | $47,724 | $43,360 | $16,463 |
| Mississippi (1) | 21,661 | 20,706 | 3,488 |
| Tennessee (2) | 3,218 | 4,707 | 1,837 |
| Texas | 4,509 | 7,639 | 1,996 |
| Total provision for loan losses | $77,112 | $76,412 | $23,784 |

(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. Trustmark's Management believes that the Florida 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 31.5%, 35.6% and 35.1% of total revenue, before securities gains, net in 2009, 2008 and 2007, respectively. Total noninterest income before securities gains, net for 2009 decreased $14.0 million, or 7.9%, compared to 2008, while total noninterest income before securities gains, net for 2008 increased $14.4 million, or 8.9%, compared to 2007. The comparative components of noninterest income for the years ended December 31, 2009, 2008 and 2007, are shown in the accompanying table.

Noninterest Income
($ in thousands)

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % Change | Amount | % Change | Amount | % Change |
| Service charges on deposit accounts | $54,087 | 0.7 % | $53,717 | -0.9 % | $54,179 | 1.8 % |
| Insurance commissions | 29,079 | -10.4 % | 32,440 | -8.1 % | 35,286 | 4.2 % |
| Wealth management | 22,079 | -20.0 % | 27,600 | 7.2 % | 25,755 | 11.1 % |
| General banking-other | 23,041 | -0.8 % | 23,230 | -6.6 % | 24,876 | 8.8 % |
| Mortgage banking, net | 28,873 | 9.0 % | 26,480 | n/m | 12,024 | 19.9 % |
| Other, net | 5,616 | -57.7 % | 13,286 | 30.1 % | 10,215 | 1.7 % |
| Total Noninterest Income before securities gains, net | 162,775 | -7.9 % | 176,753 | 8.9 % | 162,335 | 6.0 % |
| Securities gains, net | 5,467 | n/m | 505 | n/m | 112 | n/m |
| Total Noninterest Income | $168,242 | -5.1 % | $177,258 | 9.1 % | $162,447 | 4.7 % |

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

The single largest component of noninterest income continues to be service charges on deposit accounts, which increased $370 thousand, or 0.7%, during 2009, compared to a decrease of $462 thousand, or 0.9%, during 2008. Service charges on deposit accounts include general account service charges and NSF fees. General account service charges decreased by $556 thousand in 2009 compared to an increase of $343 thousand in 2008. The decrease in general account service charges during 2009 is primarily attributable to increased usage of accounts that do not charge a monthly fee while the increase in 2008 resulted from decreases in earnings credits earned by commercial customers. The earnings credit rate is the value given to deposits maintained by commercial customers. Because interest rates have trended downward during the last two years, these deposit balances have become less valuable and are yielding a lower earnings credit rate relative to 2007. As a result, customers must pay for their services through fees rather than with earnings credits applied to their deposit balances. NSF fees increased by $926 thousand during 2009 compared to an $805 thousand decrease during 2008. Compared to 2008, the growth in NSF revenues reflected increases in both pricing, which occurred in the fourth quarter of 2008, and collection percentage in 2009. In November 2009, the Federal Reserve Board adopted final rules that prohibit financial institutions, such as Trustmark, from charging customers for paying overdrafts on ATM and one-time debt card transactions, unless the consumer consents to the overdraft service for those products. This change will reduce the fees that Trustmark is able to charge when customers have insufficient funds in an account. Trustmark estimates that this charge, which becomes effective on July 1, 2010, may reduce noninterest income by approximately $5 million to $7 million for the year ending December 31, 2010.

Insurance commissions were $29.1 million during 2009, compared with $32.4 million in 2008 and $35.3 million in 2007. The decline in insurance commissions experienced during 2009 and 2008 were primarily due to lower commission volume on commercial property and casualty policies, lower claims experience refunds from carriers, and lower fees generated from captive insurance plans. Insurance commission revenues have faced pressure from a generally soft insurance market, meaning the price paid for insurance coverage is falling. Furthermore, a recessionary economy has greatly suppressed demand for insurance coverage by businesses for their inventories and equipment, workers' compensation and general liability, as well as forced companies to downsize or close.

Wealth management income totaled $22.1 million for 2009, compared with $27.6 million in 2008 and $25.8 million in 2007. Wealth management consists of income related to investment management, trust and brokerage services. The decline in wealth management income in 2009 is largely attributed to historically low short-term interest rates that have negatively impacted money management fee income from money market funds and sweep arrangements as well as a smaller base throughout the year in assets under administration when compared to 2008, which were significantly impacted by declining stock market valuations. In addition, revenues from brokerage services have also been negatively impacted by current market conditions. During 2008, the growth in wealth management income was primarily due to new account growth as well as solid and improved production from Trustmark's team of investment representatives. At December 31, 2009 and 2008, Trustmark held assets under management and administration of $7.2 billion and $6.8 billion, respectively, and brokerage assets of $1.2 billion and $1.1 billion, respectively.

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General banking-other totaled $23.0 million during 2009, compared with $23.2 million in 2008 and $24.9 million in 2007. General banking-other income consists primarily of fees on various bank products and services as well as bankcard fees and safe deposit box fees. The decrease of $189 thousand in 2009 was primarily the result of a decline in fees earned on an interest rate driven product and a decline in fees earned on bankcard products due to lower consumer usage.

Net revenues from mortgage banking were $28.9 million during 2009, compared with $26.5 million in 2008 and $12.0 million in 2007. Net mortgage banking income increased $2.4 million during 2009 compared to an increase of $14.5 million during 2008 as Trustmark continued to take advantage of competitive disruptions and expand market share. As shown in the accompanying table, net mortgage servicing income increased to $15.9 million for 2009, compared to $15.7 million in 2008 and $14.2 million in 2007. This increase coincides with an increase in mortgage production. Loans serviced for others totaled $4.2 billion at December 31, 2009, compared with $5.0 billion at December 31, 2008, and $4.6 billion at December 31, 2007. The decrease in loans serviced for others in 2009 was due to the sale of approximately $1.0 billion in mortgages serviced for others, which also reduced Trustmark's MSR by approximately $9.6 million. The gain or loss resulting from this transaction was not material.

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

Mortgage Banking Income
($ in thousands)

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % Change | Amount | % Change | Amount | % Change |
| Mortgage servicing income, net | $15,885 | 0.9% | $15,741 | 11.0% | $14,184 | 7.1% |
| Change in fair value-MSR from runoff | (8,567) | 4.7% | (8,986) | 3.8% | (9,343) | 5.2% |
| Gain on sales of loans, net | 20,755 | n/m | 5,968 | 5.5% | 5,659 | 2.8% |
| Other, net | 822 | -68.5% | 2,609 | n/m | 340 | 9.3% |
| Mortgage banking income before hedge ineffectiveness | 28,895 | 88.5% | 15,332 | 41.4% | 10,840 | 17.7% |
| Change in fair value-MSR from market changes | 6,607 | n/m | (34,838) | n/m | (9,460) | n/m |
| Change in fair value of derivatives | (6,629) | n/m | 45,986 | n/m | 10,644 | n/m |
| Net (negative) positive hedge ineffectiveness | (22) | n/m | 11,148 | n/m | 1,184 | 43.7% |
| Mortgage banking, net | $28,873 | 9.0% | $26,480 | n/m | $12,024 | 19.9% |

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

As part of Trustmark's risk management strategy, Trustmark utilizes derivatives instruments to offset changes in the fair value of MSR attributable to changes in interest rates. Changes in the fair value of the derivative instrument are recorded in mortgage banking, net and are offset by changes in the fair value of MSR. MSR fair values represent the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging MSR fair value is measured by comparing total hedge cost to the fair value of the MSR attributable to market changes.

During 2009, net negative ineffectiveness of the MSR hedge was $22 thousand, which resulted from a tightening of the spread between primary mortgage rates and the yield on the 10-year Treasury note as a result of various government programs as well as a general improvement in the credit markets. Although this spread tightening had a negative impact on the MSR hedge, this was mostly offset by income generated from a steep yield curve and net option premium, which are both core components of the MSR hedge strategy.

In comparison, during 2008, net positive ineffectiveness of the MSR hedge was $11.1 million, which was primarily the result of the unusual widening of the spread between primary mortgage rates, used to value the MSR asset, and yields on the 10-year Treasury note, which is used to hedge this asset. Also contributing to the positive performance of the hedge was income generated from a steep yield curve, as well as income from net option premium.

Representing a significant component of mortgage banking income are gains on the sales of loans, which equaled $20.8 million in 2009 compared with $6.0 million in 2008 and $5.7 million in 2007. During 2009, growth in the gain on sales of loans coincides with an increase in the spread between primary and secondary rates as well as an increase in loan sales from secondary marketing activities of approximately $263.2 million, which benefited from increased refinancing activity which began in 2008.

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Other income, net for 2009 was $5.6 million, compared with $13.3 million in 2008 and $10.2 million in 2007. The $7.7 million, or 57.7%, decrease in 2009 primarily resulted from a $1.0 million gain from the redemption of Trustmark's shares in Visa upon their initial public offering along with $1.1 million of life insurance proceeds associated with Trustmark's supplemental retirement plan that occurred during the first quarter of 2008. In addition, Trustmark exercised its right to convert MasterCard Class B shares into marketable Class A shares and sold them through a liquidation program achieving a gain of $5.4 million during the second quarter of 2008.

During 2009, in order to manage the duration of the securities portfolio and capitalize upon advantageous market conditions, Trustmark sold approximately $183.1 million of primarily mortgage-related securities. This resulted in $5.5 million of securities gains, net during 2009 compared with $505 thousand during 2008.

Noninterest Expense

Trustmark's noninterest expense for 2009 increased $24.5 million, or 8.6%, compared to 2008, while noninterest expense for 2008 increased $7.3 million, or 2.6%, compared to 2007. The increase during 2009 was primarily attributable to higher FDIC deposit insurance premiums, the FDIC special assessment and growth in both loan expenses and real estate foreclosure expenses. These factors accounted for over 95% of the change in noninterest expense when compared to the same time period in 2008.

Management considers disciplined expense management a key area of focus in the support of improving shareholder value. The comparative components of noninterest expense for 2009, 2008 and 2007 are shown in the accompanying table.

Noninterest Expense
($ in thousands)

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % Change | Amount | % Change | Amount | % Change |
| Salaries and employee benefits | $169,252 | -1.1 % | $171,137 | 0.2 % | $170,722 | 6.9 % |
| Services and fees | 40,292 | 5.0 % | 38,379 | 3.0 % | 37,259 | 1.6 % |
| Net occupancy-premises | 20,051 | 2.8 % | 19,508 | 5.4 % | 18,517 | 8.2 % |
| Equipment expense | 16,462 | -1.0 % | 16,632 | 3.7 % | 16,039 | 7.7 % |
| Other expense: | | | | | | |
| FDIC assessment expense | 15,808 | n/m | 3,471 | n/m | 829 | 4.9 % |
| ORE/Foreclosure expense | 12,814 | n/m | 2,380 | n/m | 582 | 38.2 % |
| Other expense | 33,580 | 4.2 % | 32,212 | -0.9 % | 32,501 | 5.2 % |
| Total other expense | 62,202 | 63.4 % | 38,063 | 12.2 % | 33,912 | 5.6 % |
| Total noninterest expense | $308,259 | 8.6 % | $283,719 | 2.6 % | $276,449 | 6.1 % |

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

Salaries and employee benefits, the largest category of noninterest expense, were $169.3 million in 2009, $171.1 million in 2008 and $170.7 million in 2007. During 2009, salary expense increased approximately $684 thousand when compared with 2008. This increase primarily reflects higher stock-based and general incentive costs. Trustmark's ongoing human capital management initiatives resulted in a decrease of 83 FTE employees at December 31, 2009 compared to December 31, 2008, which was primarily accomplished through attrition resulting from technology improvements. Employee benefits expense for 2009 decreased by approximately $2.6 million when compared to 2008 and is primarily attributed to a curtailment gain of $1.9 million as a result of the freeze in benefits of the Capital Accumulation Plan and Trustmark's ongoing human capital management initiatives previously mentioned. During 2008, salary expense remained relatively flat when compared with the same time period in 2007 and was positively impacted by Trustmark's ongoing human capital management initiatives which resulted in a decrease of 5 FTE employees at December 31, 2008 compared to December 31, 2007. Employee benefits expense for 2008 increased by approximately $305 thousand when compared to 2007 and is primarily attributed to increased costs for employee insurance programs and stock-based compensation plans.

Services and fees for 2009 increased $1.9 million, or 5.0%, when compared with 2008, while an increase of $1.1 million, or 3.0%, occurred when 2008 is compared with 2007. The 2009 growth in services and fees expenses is primarily the result of Trustmark's investment in a debit card rewards program implemented during 2008 and legal and professional expenses incurred throughout the year.

The combined growth in net occupancy-premises expense and equipment expense for 2009 was $373 thousand, or 1.0%, compared with an increase of $1.6 million, or 4.6%, in 2008. Growth in these expense categories can be attributed to a decrease in Trustmark's rental income due to the loss of a significant lessee. During 2008, the growth resulted primarily from the opening of six new banking centers, which increased rental expense, ad valorem and personal property taxes, depreciation and data processing expenses.

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During 2009, other expenses increased $24.1 million, or 63.4%, while in 2008, other expenses increased $4.2 million, or 12.2%. The growth in other expenses was primarily the result of increases in FDIC insurance, loan expenses and real estate foreclosure expenses, which increased $23.8 million when compared to 2008. FDIC insurance expense increased due to growth in fee assessment rates during 2009 and a special assessment applied to all insured institutions as of June 30, 2009. On November 12, 2009, the FDIC adopted a final rule requiring a majority of institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. Trustmark's prepaid assessment amount was approximately $39.1 million and was collected by the FDIC on December 30, 2009. During 2008, the growth in other expenses can be attributed to increases in FDIC insurance and real estate foreclosure expenses, which increased $6.1 million when compared to 2007.

## Segment Information

### Results of Segment Operations

Trustmark's operations are managed along three operating segments: General Banking Division, Insurance Division and the Wealth Management Division. Beginning in 2009, Management began making its strategic decisions about General Banking as a segment that also included the former Administration segment. The decision to include the previously separate Administration segment within General Banking was based on the fact that the operations of the primary component of the Administration segment, Treasury, are solely dependent on the existence of the General Banking operations. The decision to include the previously separate Administration segment within General Banking was also based on the fact that the vast majority of the resources in the other components of Administration (which comprise Executive Administration, Corporate Finance, and Human Resources) have historically primarily supported the General Banking segment. A description of each segment and the methodologies used to measure financial performance is described in Note 19 – Segment Information located in Item 8 – Financial Statements and Supplementary Data. Consolidated net income for 2009, 2008 and 2007 includes the impact of Katrina. Net income by operating segment is presented below ($ in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| General Banking | $84,313 | $79,471 | $94,837 |
| Insurance | 4,248 | 5,377 | 6,908 |
| Wealth Management | 4,486 | 7,569 | 6,850 |
| Consolidated Net Income | $93,047 | $92,417 | $108,595 |

### General Banking

The General Banking Division is responsible for all traditional banking products and services including a full range of commercial and consumer banking services such as checking accounts, savings programs, overdraft facilities, commercial, installment and real estate loans, home equity loans and lines of credit, drive-in and night deposit services and safe deposit facilities offered through over 150 offices in Florida, Mississippi, Tennessee and Texas. The General Banking Division also consists of internal operations that were previously included in the former Administration segment. These internal operations include Human Resources, Executive Administration, Treasury (Funds Management), Public Affairs and Corporate Finance. Included in these operational units are expenses related to mergers, mark-to-market adjustments on loans and deposits, general incentives, stock options, supplemental retirement and amortization of core deposits. Other than Treasury, these business units are support-based in nature and are largely responsible for general overhead expenditures that are not allocated.

Net income for the General Banking Division increased by $4.8 million during 2009, or 6.1%, compared with 2008. The 2009 increase primarily resulted from an increase in net interest income of $34.9 million net against a $27.0 million increase in noninterest expense. In addition to the increases in net interest income and noninterest expense, the provision for loan losses increased $617 thousand and noninterest income increased $194 thousand. The increase in net interest income is the result of a $40.5 million decrease in interest income offset with a $75.4 million decrease in interest expense. In 2009, Trustmark expanded its net interest margin through diligent management of its assets and liabilities. The increase in the net interest margin was primarily due to three main factors; 1) disciplined deposit pricing afforded to Trustmark due to a strong liquidity position, 2) prudent loan pricing, including the use of minimum loan rates/floors and 3) the purchase of fixed rate securities in 2008, of which were funded mostly with declining short-term, floating rate liabilities. The $27.0 million increase in noninterest expense is due primarily to increases in real estate foreclosure and FDIC insurance of $10.4 million and $12.3 million respectively. The increase in real estate foreclosure expense is primarily attributed to increases of $5.7 million, $1.0 million, and $1.1 million in the Florida, Memphis, and Corporate Real Estate business units respectively. FDIC insurance expense increased due to growth in fee assessment rates in 2009 along with a $4.4 million special assessment.

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Net income for the General Banking Division decreased by $15.4 million during 2008, or 16.2%, compared with 2007. The 2008 decrease primarily resulted from an increase in the provision for loan losses of $52.7 million. Along with the increase in the provision expense, net interest income increased $18.1 million, noninterest expense increased $6.3 million and noninterest income increased $15.7 million. The increase in the provision for loan losses is primarily attributed to increases in Trustmark's Florida and Mississippi markets of $26.9 million and $17.2 million, respectively. The increase in the Florida provision for loan losses is a result of growth in nonperforming loans resulting from a weakening of homebuilder credit quality in that market. Mississippi's increase in provision for loan losses is due to growth in net charge-offs, criticized and classified loans, as well as an increase in the consumer reserve factor. Net interest income increased in 2008 by $18.1 million, or 6.1%, due to a $60.0 million decrease in interest income offset with a $78.1 million decrease in interest expense. In 2008, Trustmark expanded its net interest margin while in a falling rate environment. This was accomplished through deposit pricing discipline afforded to Trustmark due to a strong liquidity position, the purchase of fixed rate securities throughout the year and a widening in the spread between LIBOR and the Fed Funds rate that has since dissipated. Noninterest income grew by $15.7 million, or 15.6%, in 2008 and is the result of an increase in revenues earned from mortgage banking. The growth in noninterest expense in 2008 totaled $6.3 million, or 2.7%, and resulted from increases in FDIC insurance, real estate foreclosures, loan expenses and outside services. FDIC insurance increased $2.6 million in 2008 as Trustmark completed its utilization of credits provided by the FDIC during 2007. In 2008, Trustmark implemented a debit rewards incentive program with a cost of $1.4 million in outside services.

Insurance

Trustmark's Insurance Division includes two wholly-owned subsidiaries of TNB: Bottrell and Fisher-Brown. Through Bottrell and Fisher-Brown, Trustmark provides a full range of retail insurance products, including commercial risk management products, bonding, group benefits and personal lines coverage.

Net income decreased $1.1 million, or 21.0% in 2009, compared to a decrease of $1.5 million, or 22.2% in 2008. The decrease in net income in 2009 is attributed to a decrease in noninterest income of $3.4 million partially offset by a $1.5 million decrease in noninterest expense. The decline in insurance revenues experienced during 2009 were primarily due to lower commission volume on commercial property and casualty policies, lower claims experience refunds from carriers and lower fees generated from captive insurance plans. The decline in noninterest expense for 2009 is due primarily to a $1.3 million decrease in salaries and benefits, which holds a corresponding relationship with revenue. In 2008, noninterest income decreased $3.0 million or 8.5%. The decline in 2008 is due to pressure on premiums caused by softening rates.

Wealth Management

The Wealth Management Division has been strategically organized to serve Trustmark's customers as a financial partner providing reliable guidance and sound, practical advice for accumulating, preserving, and transferring wealth. The Investment Services group, along with the Trust group, are the primary service providers in this segment. Two wholly-owned subsidiaries of TNB are included in Wealth Management. TIA is a registered investment adviser that provides investment management services to individual and institutional accounts as well as The Performance Fund Family of Mutual Funds. TRMI acts as an agent to provide life, long-term care and disability insurance services for wealth management customers.

Net income in 2009 declined $3.1 million, or 40.7%, compared to an increase in 2008 of $719 thousand, or 10.5%. Wealth management revenues are primarily fee generated. In 2009, total noninterest income declined by $5.8 million, or 20.2%, while in 2008, noninterest income grew $2.1 million, or 8.1%. The decrease in noninterest income in 2009 is the result of a historically low short-term interest rate environment that has negatively impacted money management fee income from money market funds and sweep arrangements as well as a smaller base throughout the year in assets under administration when compared with 2008, which were significantly impacted by declining stock market valuations. Also, revenues from brokerage services have been negatively impacted by current market conditions. Noninterest expenses decreased in 2009 by $1.0 million, or 4.8%, compared to an increase of $1.1 million, or 5.5%, in 2008. In 2009, the decrease in noninterest expense is from a decrease in commissions and incentives, which is the result of the decline in noninterest income. The growth in noninterest expense in 2008 is due primarily to increases in salaries and benefits related to commissions and incentives that are based on revenue performance.

Income Taxes

For the year ended December 31, 2009, Trustmark's combined effective tax rate was 32.1% compared to 32.2% in 2008 and 33.4% in 2007. The decrease in Trustmark's effective tax rate in 2009 is due to immaterial changes in permanent items as a percentage of pretax income.

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Earning Assets

Earning assets serve as the primary revenue streams for Trustmark and are comprised of securities, loans, federal funds sold and securities purchased under resale agreements. Average earning assets totaled $8.570 billion, or 90.0% of total assets, at December 31, 2009, compared with $8.179 billion, or 89.6% of total assets, at December 31, 2008, an increase of $391.1 million, or 4.8%.

Securities

From 2005 through 2007, Trustmark allowed its investment portfolio to run-off given a flat yield curve and limited spread opportunity. The cash flow created by this run-off was reinvested in higher yielding loans resulting in an improved net interest margin percentage. In the first quarter of 2008, given a steeper yield curve and improved spread opportunities on investment securities versus traditional funding sources, Trustmark began purchasing securities.

When compared with December 31, 2008, total investment securities increased by $114.9 million during 2009. This increase resulted primarily from purchases of Agency guaranteed securities offset by maturities and paydowns. In addition, during 2009, Trustmark sold approximately $188.5 million in securities, generating a gain of approximately $5.5 million. This was a strategy undertaken primarily to manage the duration of the securities portfolio and capitalize upon advantageous market conditions.

The securities portfolio is one of many tools Management uses to control exposure to interest rate risk. Interest rate risk can be adjusted by altering both the duration of the portfolio and the balance of the portfolio. Trustmark has maintained a strategy of offsetting potential exposure to higher interest rates by keeping both the average life and the balance of investment securities at relatively low levels. The weighted-average life during 2009 has lengthened despite the investment strategy mentioned above primarily due to slower prepayment expectations for mortgage related securities. As a result, the weighted-average life of the portfolio increased to 3.58 years at December 31, 2009, compared to 1.85 years at December 31, 2008.

The table below indicates the amortized cost of securities available for sale and held to maturity by type at year end for each of the last three years:

Amortized Cost of Securities by Type
($ in thousands)

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Securities available for sale | | | |
| U.S. Treasury securities | $- | $6,502 | $8,005 |
| U.S. Government agency obligations | | | |
| Issued by U.S. Government agencies | 20 | 27 | 34 |
| Issued by U.S. Government sponsored agencies | 48,685 | 24,821 | - |
| Obligations of states and political subdivisions | 115,118 | 98,323 | 45,704 |
| Mortgage-backed securities | | | |
| Residential mortgage pass-through securities | | | |
| Guaranteed by GNMA | 11,765 | 8,476 | 4,417 |
| Issued by FNMA and FHLMC | 49,510 | 18,519 | 4,941 |
| Other residential mortgage-backed securities | | | |
| Issued or guaranteed by FNMA, FHLMC or GNMA | 1,333,983 | 1,337,113 | 303,434 |
| Commercial mortgage-backed securities | | | |
| Issued or guaranteed by FNMA, FHLMC or GNMA | 67,294 | 11,041 | 5,989 |

| | | | |
|---|---|---|---|
| Corporate debt securities | 6,087 | 8,254 | 70,971 |
| Total securities available for sale | $1,632,462 | $1,513,076 | $443,495 |
| | | | |
| Securities held to maturity | | | |
| Obligations of states and political subdivisions | $74,643 | $102,901 | $114,497 |
| Mortgage-backed securities | | | |
| Residential mortgage pass-through securities | | | |
| Guaranteed by GNMA | 7,044 | - | - |
| Other residential mortgage-backed securities | | | |
| Issued or guaranteed by FNMA, FHLMC or GNMA | 148,226 | 156,728 | 160,473 |
| Commercial mortgage-backed securities | | | |
| Issued or guaranteed by FNMA, FHLMC or GNMA | 3,071 | - | - |
| Foreign debt securities | - | - | 126 |
| Total securities held to maturity | $232,984 | $259,629 | $275,096 |

Available for sale (AFS) securities are carried at their estimated fair value with unrealized gains or losses recognized, net of taxes, in accumulated other comprehensive loss, a separate component of shareholders' equity. At December 31, 2009, AFS securities totaled $1.684 billion, which represented 87.8% of the securities portfolio, compared to $1.543 billion, or 85.6%, at December 31, 2008. At December 31, 2009, unrealized gains, net on AFS securities totaled $51.9 million compared with unrealized gains, net of $29.8 million at December 31, 2008. At December 31, 2009, AFS securities consisted of obligations of states and political subdivisions, mortgage related securities, U.S. Government agency obligations and corporate securities.

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Held to maturity (HTM) securities are carried at amortized cost and represent those securities that Trustmark both intends and has the ability to hold to maturity. At December 31, 2009, HTM securities totaled $233.0 million and represented 12.2% of the total portfolio, compared with $259.6 million, or 14.4%, at the end of 2008.

Management continues to focus on asset quality as one of the strategic goals of the securities portfolio, which is evidenced by the investment of approximately 89% of the portfolio in U.S. Government agency-backed obligations and other AAA rated securities. None of the securities owned by Trustmark are collateralized by assets which are considered sub-prime. Furthermore, outside of membership in the Federal Home Loan Bank of Dallas, Federal Reserve Bank and Depository Trust and Clearing Corporation, Trustmark does not hold any equity investment in government sponsored entities.

The following table details the maturities of securities available for sale and held to maturity using amortized cost at December 31, 2009, and the weighted-average yield for each range of maturities (tax equivalent basis):

| Maturity/Yield Analysis Table ($ in thousands) | Maturing | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Within One Year | Yield | After One, But Within Five Years | Yield | After Five, But Within Ten Years | Yield | After Ten Years | Yield | Total |
| Securities available for sale | | | | | | | | | |
| U.S. Government agency obligations | | | | | | | | | |
| Issued by U.S. Government agencies | $- | - | $20 | 3.86% | $- | - | $- | - | $20 |
| Issued by U.S. Government Sponsored Agencies | - | - | - | - | 48,685 | 3.56% | - | - | 48,685 |
| Obligations of states and political subdivisions | 4,330 | 5.27% | 29,110 | 5.74% | 57,680 | 4.91% | 23,998 | 5.53% | 115,118 |
| Mortgage-backed securities | | | | | | | | | |
| Residential mortgage pass-through securities | | | | | | | | | |
| Guaranteed by GNMA | 3 | 6.36% | 248 | 6.19% | 132 | 9.23% | 11,382 | 5.68% | 11,765 |
| Issued by FNMA and FHLMC | - | - | 8 | 5.24% | 436 | 6.75% | 49,066 | 3.92% | 49,510 |
| Other residential mortgage-backed securities | | | | | | | | | |
| Issued or guaranteed by FNMA, FHLMC, or GNMA | - | - | 7,203 | 4.23% | 21,217 | 4.82% | 1,305,563 | 4.83% | 1,333,983 |
| Commercial mortgage-backed securities | | | | | | | | | |
| Issued or guaranteed by FNMA, FHLMC, or GNMA | - | - | - | - | 44,401 | 4.40% | 22,893 | 4.94% | 67,294 |
| Corporate debt securities | 6,087 | 4.46% | - | - | - | - | - | - | 6,087 |
| Total securities available for sale | $10,420 | 4.80% | $36,589 | 5.44% | $172,551 | 4.39% | $1,412,902 | 4.82% | $1,632,462 |
| | | | | | | | | | |
| Securities held to maturity | | | | | | | | | |
| Obligations of states and political subdivisions | $5,173 | 6.91% | $25,459 | 7.14% | $30,134 | 7.26% | $13,877 | 8.54% | $74,643 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Mortgage-backed securities | | | | | | | | | | |
| Residential mortgage pass-through securities | | | | | | | | | | |
| Guaranteed by GNMA | - | | - | | - | | - | | 7,044 | 4.58% | 7,044 |
| Other residential mortgage-backed securities | | | | | | | | | | |
| Issued or guaranteed by FNMA, FHLMC, or GNMA | - | - | - | - | - | - | 148,226 | 4.56% | 148,226 |
| Commercial mortgage-backed securities | | | | | | | | | | |
| Issued or guaranteed by FNMA, FHLMC, or GNMA | - | - | - | - | - | - | 3,071 | 4.65% | 3,071 |
| Total securities held to maturity | $5,173 | 6.91% | $25,459 | 7.14% | $30,134 | 7.26% | $172,218 | 4.88% | $232,984 |

Mortgage-backed securities and collateralized mortgage obligations are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

As of December 31, 2009, Trustmark did not hold securities of any one issuer with a carrying value exceeding ten percent of total shareholders' equity, other than certain government-sponsored agencies which are exempt from inclusion.  Management continues to closely monitor the credit quality as well as the ratings of the debt and mortgage-backed securities issued by the U.S. Government sponsored entities and held in Trustmark's securities portfolio in light of issues currently facing these entities.

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The following tables present Trustmark's securities portfolio by amortized cost and estimated fair value and by credit rating at December 31, 2009.

Securities Portfolio by Credit Rating (1)
($ in thousands)

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized Cost | | Estimated Fair Value | |
| | Amount | % | Amount | % |
| Securities Available for Sale | | | | |
| AAA | $1,511,253 | 92.6 % | $1,560,696 | 92.7 % |
| Aa1 to Aa3 | 35,053 | 2.1 % | 35,810 | 2.1 % |
| A1 to A3 | 24,757 | 1.5 % | 24,984 | 1.5 % |
| Baa1 to Baa3 | 7,545 | 0.5 % | 7,684 | 0.5 % |
| Not Rated (2) | 53,854 | 3.3 % | 55,222 | 3.2 % |
| Total securities available for sale | $1,632,462 | 100.0 % | $1,684,396 | 100.0 % |
| | | | | |
| Securities Held to Maturity | | | | |
| AAA | $160,710 | 69.0 % | $166,138 | 69.0 % |
| Aa1 to Aa3 | 22,341 | 9.6 % | 23,564 | 9.8 % |
| A1 to A3 | 15,245 | 6.5 % | 15,570 | 6.5 % |
| Baa1 to Baa3 | 3,489 | 1.5 % | 3,543 | 1.5 % |
| Not Rated (2) | 31,199 | 13.4 % | 31,859 | 13.2 % |
| Total securities held to maturity | $232,984 | 100.0 % | $240,674 | 100.0 % |

(1) - Credit ratings obtained from Moody's Investors Service
(2) - Not rated issues primarily consist of Mississippi municipal general obligations

The table presenting the credit rating of Trustmark's securities is formatted to show the securities according to the credit rating category, and not by category of the underlying security. At December 31, 2009, approximately 93% of the available for sale securities are rated AAA investment grade and the same is true with respect to 69% of held to maturity securities, which are carried at amortized cost.

Loans Held for Sale

At December 31, 2009, loans held for sale totaled $226.2 million, consisting of $145.2 million of residential real estate mortgage loans in the process of being sold to third parties and $81.0 million of Government National Mortgage Association (GNMA) optional repurchase loans. At December 31, 2008, loans held for sale totaled $238.3 million, consisting of $198.8 million in residential real estate mortgage loans in the process of being sold to third parties and $39.5 million in GNMA optional repurchase loans. Please refer to the nonperforming assets table that follows for information on GNMA loans eligible for repurchase which are past due 90 days or more.

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 the two years ended December 31, 2009, Trustmark has not exercised their buy-back option on any delinquent loans serviced for GNMA.

Loans and Allowance for Loan Losses

Loans at December 31, 2009 totaled $6.320 billion compared to $6.722 billion at December 31, 2008, a decrease of $402.6 million. These declines are directly attributable to a strategic focus to reduce certain loan classifications, specifically construction, land development and other land loans and indirect consumer auto loans. In addition, these loan classifications, as well as commercial and industrial loans, have been impacted by current economic conditions. The decline in construction, land development and other land loans can be primarily attributable to Trustmark's Florida market, which at December 31, 2009 had loans totaling $198.9 million; a decrease of $95.6 million from December 31, 2008. This trend is expected to continue until the real estate market stabilizes in Florida and overall economic conditions improve. The consumer loan portfolio decrease of $288.7 million primarily represents a decrease in the indirect consumer auto portfolio. The indirect consumer auto portfolio balance at December 31, 2009, 2008, and 2007, was $386.0 million, $634.2 million, and $845.3 million, respectively, and had an average remaining life of 1.24 years at December 31, 2009. The declines in these classifications reflect implementation of Management's determination to reduce overall exposure to these types of assets.

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The table below shows the carrying value of the loan portfolio at the end of each of the last five years:

| Loan Portfolio by Type<br>($ in thousands) | December 31,<br>2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Loans secured by real estate: | | | | | |
| Construction, land development and other land loans | $830,069 | $1,028,788 | $1,194,940 | $896,254 | $715,174 |
| Secured by 1-4 family residential properties | 1,650,743 | 1,524,061 | 1,694,757 | 1,842,886 | 1,901,196 |
| Secured by nonfarm, nonresidential properties | 1,467,307 | 1,422,658 | 1,325,379 | 1,326,658 | 1,061,669 |
| Other real estate secured | 197,421 | 186,915 | 167,610 | 148,921 | 166,685 |
| Loans to finance agricultural production and other loans to farmers | 23,005 | 18,641 | 23,692 | 23,938 | 40,162 |
| Commercial and industrial loans | 1,126,676 | 1,305,938 | 1,283,014 | 1,106,460 | 861,167 |
| Consumer loans | 606,315 | 895,046 | 1,087,337 | 934,261 | 880,868 |
| Obligations of states and political subdivisions | 326,162 | 270,599 | 228,330 | 233,666 | 230,214 |
| Loans for purchasing or carrying securities | 11,659 | 20,566 | 4,949 | 8,110 | 5,204 |
| Other loans | 80,440 | 49,191 | 30,784 | 41,999 | 51,004 |
| Loans | $6,319,797 | $6,722,403 | $7,040,792 | $6,563,153 | $5,913,343 |

The loan composition by region at December 31, 2009 is reflected in the following tables ($ in thousands) and reflects a diversified mix of loans by region.

| | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| Loan Composition by Region | Total | Florida | Mississippi (Central and Southern Regions) | Tennessee (Memphis, TN and Northern MS Regions) | Texas |
| Loans secured by real estate: | | | | | |
| Construction, land development and other land loans | $830,069 | $198,906 | $302,918 | $59,322 | $268,923 |
| Secured by 1-4 family residential properties | 1,650,743 | 87,282 | 1,367,633 | 165,016 | 30,812 |
| Secured by nonfarm, nonresidential properties | 1,467,307 | 180,267 | 828,954 | 216,520 | 241,566 |
| Other real estate secured | 197,421 | 5,388 | 162,607 | 9,969 | 19,457 |
| Commercial and industrial loans | 1,126,676 | 19,869 | 832,166 | 60,351 | 214,290 |
| Consumer loans | 606,315 | 2,287 | 565,973 | 28,946 | 9,109 |
| Other loans | 441,266 | 29,655 | 365,162 | 22,576 | 23,873 |
| Loans | $6,319,797 | $523,654 | $4,425,413 | $562,700 | $808,030 |

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

| Construction, Land Development and Other Land Loans by Region | | | | | |
|---|---|---|---|---|---|
| Lots | $99,738 | $61,725 | $24,791 | $4,551 | $8,671 |

| | | | | | |
|---|---|---|---|---|---|
| Development | 187,384 | 27,227 | 68,443 | 9,185 | 82,529 |
| Unimproved land | 277,723 | 76,762 | 108,130 | 32,623 | 60,208 |
| 1-4 family construction | 120,813 | 10,929 | 70,440 | 5,825 | 33,619 |
| Other construction | 144,411 | 22,263 | 31,114 | 7,138 | 83,896 |
| Construction, land development and other land loans | $830,069 | $198,906 | $302,918 | $59,322 | $268,923 |

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| Loans Secured by Nonfarm, Nonresidential Properties by Region | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Total | Florida | Mississippi (Central and Southern Regions) | Tennessee (Memphis, TN and Northern MS Regions) | Texas |
| Income producing: | | | | | |
| Retail | $171,790 | $34,239 | $83,992 | $28,523 | $25,036 |
| Office | 158,625 | 56,125 | 81,950 | 11,435 | 9,115 |
| Nursing homes/assisted living | 122,324 | - | 112,028 | 4,921 | 5,375 |
| Hotel/motel | 68,864 | 13,832 | 31,000 | 11,127 | 12,905 |
| Industrial | 22,341 | 6,944 | 5,136 | 1,217 | 9,044 |
| Health care | 11,497 | - | 11,431 | 66 | - |
| Convenience stores | 7,732 | 307 | 4,873 | 1,330 | 1,222 |
| Other existing | 142,166 | 13,623 | 62,134 | 17,248 | 49,161 |
| Total Income Producing | 705,339 | 125,070 | 392,544 | 75,867 | 111,858 |
| | | | | | |
| Owner-occupied: | | | | | |
| Churches | 122,211 | 2,353 | 53,668 | 61,719 | 4,471 |
| Office | 116,299 | 21,714 | 57,668 | 17,730 | 19,187 |
| Health care | 82,010 | 11,355 | 57,291 | 4,308 | 9,056 |
| Industrial warehouses | 80,082 | 2,503 | 57,932 | 431 | 19,216 |
| Convenience stores | 70,577 | 1,315 | 48,161 | 4,210 | 16,891 |
| Retail | 39,336 | 6,045 | 21,723 | 1,258 | 10,310 |
| Auto dealerships | 22,658 | 642 | 16,997 | 1,686 | 3,333 |
| Restaurants | 35,718 | 900 | 25,097 | 6,153 | 3,568 |
| Miscellaneous commercial owner-occupied | 193,077 | 8,370 | 97,873 | 43,158 | 43,676 |
| Total Owner-Occupied | 761,968 | 55,197 | 436,410 | 140,653 | 129,708 |
| | | | | | |
| Loans secured by nonfarm, nonresidential properties | $1,467,307 | $180,267 | $828,954 | $216,520 | $241,566 |

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

Trustmark makes loans in the normal course of business to certain directors, their immediate families and companies in which they are principal owners. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility at the time of the transaction.

There is no industry standard definition of “subprime loans.” Trustmark categorizes certain loans as subprime for its purposes using a set of factors, which Management believes, are consistent with industry practice. TNB has not originated or purchased subprime mortgages. At December 31, 2009, Trustmark held “alt A” mortgages with an aggregate principal balance of approximately $2.1 million (0.05% of total loans secured by real estate at that date). These “alt A” loans have been originated by Trustmark as an accommodation to certain Trustmark customers for whom Trustmark determined that such loans were suitable under the purposes of the Fannie Mae “alt A” program and under Trustmark's loan origination standards. Trustmark does not have any no-interest loans, other than a small number of loans made to customers that are charitable organizations, the aggregate amount of which is not material to Trustmark's financial condition or results of operations.

Due to the short-term nature of most commercial real estate lending and the practice of annual renewal of commercial lines of credit, approximately one-third of Trustmark's portfolio matures in less than one year. Such a short-term maturity profile is not unusual for a commercial bank and provides Trustmark the opportunity to obtain updated financial information from its borrowers and to actively monitor its borrowers' credit worthiness. This maturity profile is well matched with many of Trustmark's sources of funding, which are also short-term in nature.

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The following table provides information regarding Trustmark's loan maturities by category at December 31, 2009:

Loan Maturities by Category
($ in thousands)

| Loan Type | Maturing Within One Year or Less | One Year Through Five Years | After Five Years | Total |
|---|---|---|---|---|
| Construction, land development and other land loans | $532,729 | $266,542 | $30,798 | $830,069 |
| Secured by 1-4 family residential properties | 551,246 | 319,232 | 780,265 | 1,650,743 |
| Other loans secured by real estate | 462,580 | 956,843 | 245,305 | 1,664,728 |
| Commercial and industrial | 584,723 | 478,142 | 63,811 | 1,126,676 |
| Consumer loans | 97,106 | 495,177 | 14,032 | 606,315 |
| Other loans | 110,048 | 117,796 | 213,422 | 441,266 |
| Total | $2,338,432 | $2,633,732 | $1,347,633 | $6,319,797 |

The following table provides information regarding Trustmark's loan maturities by interest rate sensitivity at December 31, 2009.

Loan Maturities by Interest Rate Sensitivity
($ in thousands)

| Loan Type | Maturing Within One Year or Less | One Year Through Five Years | After Five Years | Total |
|---|---|---|---|---|
| Predetermined interest rates | $814,736 | $2,140,774 | $1,235,093 | $4,190,603 |
| Floating interest rates: | | | | |
| Loans which are at contractual floor | 695,200 | 246,946 | 30,721 | 972,867 |
| Loans which are free to float | 828,496 | 246,012 | 81,819 | 1,156,327 |
| Total floating interest rates | 1,523,696 | 492,958 | 112,540 | 2,129,194 |
| Total | $2,338,432 | $2,633,732 | $1,347,633 | $6,319,797 |

The allowance for loan losses is established through provisions for estimated loan losses charged against net income. The allowance reflects Management's best estimate of the probable loan losses related to specifically identified loans, as well as probable incurred loan losses in the remaining loan portfolio and requires considerable judgment. The allowance is based upon Management's current judgments and the credit quality of the loan portfolio, including all internal and external factors that impact loan collectibility. Accordingly, the allowance is based upon both past events and current economic conditions.

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The table below illustrates the changes in Trustmark's allowance for loan losses and well Trustmark's loan loss experience for each of the last five years:

| Analysis of the Allowance for Loan Losses ($ in thousands) | Years Ended December 31, 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Balance at beginning of period | $94,922 | $79,851 | $72,098 | $76,691 | $64,757 |
| Loans charged off: | | | | | |
| Real estate loans | (55,148) | (48,182) | (8,678) | (1,511) | (2,770) |
| Loans to finance agricultural production and other loans to farmers | - | (3) | (297) | (3) | (14) |
| Commercial and industrial | (5,715) | (3,182) | (2,136) | (1,670) | (2,978) |
| Consumer | (15,759) | (15,976) | (10,207) | (7,740) | (8,147) |
| All other loans | (4,089) | (4,424) | (5,472) | (4,014) | (2,913) |
| Total charge-offs | (80,711) | (71,767) | (26,790) | (14,938) | (16,822) |
| Recoveries on loans previously charged off: | | | | | |
| Real estate loans | 555 | 208 | 57 | 152 | 135 |
| Commercial and industrial | 2,935 | 1,137 | 1,356 | 1,729 | 1,006 |
| Consumer | 5,997 | 5,874 | 5,944 | 6,130 | 5,300 |
| All other loans | 2,852 | 3,207 | 3,402 | 2,955 | 2,774 |
| Total recoveries | 12,339 | 10,426 | 10,759 | 10,966 | 9,215 |
| Net charge-offs | (68,372) | (61,341) | (16,031) | (3,972) | (7,607) |
| Provision for loan losses | 77,112 | 76,412 | 23,784 | (5,938) | 19,541 |
| Allowance of acquired bank | - | - | - | 5,317 | - |
| Balance at end of period | $103,662 | $94,922 | $79,851 | $72,098 | $76,691 |
| | | | | | |
| Percentage of net charge-offs during period to average loans outstanding during the period | 1.01% | 0.87% | 0.23% | 0.06% | 0.13% |

Trustmark's allowance has been developed using different factors to estimate losses based upon specific evaluation of identified individual loans considered impaired, estimated identified losses on various pools of loans and/or groups of risk rated loans with common risk characteristics and other external and internal factors of estimated probable losses based on other facts and circumstances.

Trustmark's allowance for probable loan loss methodology is based on guidance provided in SAB No. 102 as well as other regulatory guidance. The level of Trustmark's allowance reflects Management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio growth, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. This evaluation takes into account other qualitative factors including recent acquisitions; national, regional and local economic trends and conditions; changes in industry and credit concentration; changes in levels and trends of delinquencies and nonperforming loans; changes in levels and trends of net charge-offs; and changes in interest rates and collateral, financial and underwriting exceptions.

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During the quarter ended June 30, 2009, Trustmark refined its allowance for loan loss methodology for commercial loans based upon current regulatory guidance from its primary regulator. This refined methodology delineates the commercial purpose and commercial construction loan portfolios into 13 separate loan types, which have similar characteristics, such as, repayment, collateral and risk profiles. Within each loan type, a 10 point risk rating system is utilized to apply a reserve factor consisting of quantitative and qualitative components to determine the needed allowance by each loan type. This change expanded commercial loans from a single pool in 2008 and prior years to the thirteen separate pools as segmented below:

- Ø Commercial Purpose Loans
  - Real Estate – Owner Occupied
  - Real Estate – Non-Owner Occupied
  - Working Capital
  - Non-Working Capital
  - Land
    - Florida
    - Mississippi, Tennessee and Texas
  - Lots and Development
    - Florida
    - Mississippi, Tennessee and Texas
  - Political Subdivisions

- Ø Commercial Construction Loans
  - 1 to 4 Family
    - Florida
    - Mississippi, Tennessee and Texas
  - Non-1 to 4 Family
    - Florida
    - Mississippi, Tennessee and Texas

The quantitative factors utilized in determining the required reserve are intended to reflect a three-year average by loan type; however, because of the current economic recession and the development of the refined reserve methodology, a historical 2008 loss ratio was utilized. Trustmark will develop its three-year loss factors utilizing 2008 as a base year. The qualitative factors utilize eight separate factors made up of unique characteristics that, when weighted and combined, produce an estimated level of reserve for each loan type.

Because of these enhancements, Trustmark was able to increase risk rate factors for commercial loans by type from 10 in 2008, to 130 in 2009. This allowed Trustmark to reallocate loan loss reserves to loans that represent the highest risk. As a result, approximately $8.0 million in qualitative reserves were reallocated to specific reserves during the second quarter of 2009.

At December 31, 2009, the allowance for loan losses was $103.7 million, an increase of $8.7 million when compared with December 31, 2008, primarily resulting from increased credit risk associated with growth in nonperforming loans. Trustmark has not experienced any abnormal credit deterioration, excluding the Florida Panhandle where, after a decade of growth, the economy has declined as a result of overbuilding commercial developments of residential real estate. Trustmark is actively engaged in the resolution of credit issues in the Florida Panhandle. Total allowance coverage of nonperforming loans, excluding impaired loans charged down to net realizable value, at December 31, 2009, was 150.1%, compared to 166.1% at December 31, 2008. Trustmark's allocation of its allowance for loan losses represents 2.10% of commercial loans and 0.80% of consumer and home mortgage loans, resulting in an allowance to total loans of 1.64% at December 31, 2009. This compares with an allowance to total loans of 1.41% at December 31, 2008, which was allocated to commercial loans at 1.79% and to consumer and mortgage loans at 0.72%.

Managing credit risks resulting from the current economic and real estate market conditions continues to be a primary focus for Trustmark. Nonperforming assets totaled $231.3 million at December 31, 2009, an increase of $78.7 million relative to December 31, 2008. Collectively, total nonperforming assets to total loans and other real estate at December 31, 2009 was 3.48% compared to 2.18% at December 31, 2008. Net charge-offs in 2009 totaled $68.4 million, or 1.01% of average loans, while the provision for loan losses increased to $77.1 million. The increase in each of these metrics is principally attributable to residential real estate conditions, primarily in Trustmark's Florida market. To put into proper perspective, the Florida market represented approximately 8% of Trustmark's total loans but 52% of nonperforming assets, 62% of total provisioning and 53% of net charge-offs in 2009.

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Total nonaccrual loans increased $27.1 million during 2009 to $141.2 million, or 2.16% of total loans, due primarily to one commercial real estate credit in Mississippi, two commercial real estate credits in Tennessee, seven commercial real estate credits and one consumer real estate credit in Florida, and four commercial real estate credits in Texas regions, which were reserved for or written-down to fair value of the underlying collateral less cost to sell. Other real estate increased $51.5 million at December 31, 2009 compared to December 31, 2008, primarily due to six construction, land development and other land properties in Florida; and four development projects in Mississippi and two in Texas being moved into other real estate. During 2009, there was $7.4 million in other real estate valuation adjustments due to a continual decline in commercial developments of residential real estate values.

| Nonperforming Assets ($ in thousands) | December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Nonaccrual loans | | | | | |
| Florida | $74,159 | $75,092 | $43,787 | $4,429 | $348 |
| Mississippi (1) | 31,050 | 18,703 | 13,723 | 23,889 | 24,100 |
| Tennessee (2) | 12,749 | 3,638 | 4,431 | 3,708 | 3,788 |
| Texas | 23,204 | 16,605 | 3,232 | 4,373 | 678 |
| Total nonaccrual loans | 141,162 | 114,038 | 65,173 | 36,399 | 28,914 |
| Other real estate | | | | | |
| Florida | 45,927 | 21,265 | 995 | - | - |
| Mississippi (1) | 22,373 | 6,113 | 1,123 | 1,065 | 1,594 |
| Tennessee (2) | 10,105 | 8,862 | 6,084 | 1,140 | 2,051 |
| Texas | 11,690 | 2,326 | 146 | 304 | 462 |
| Total other real estate | 90,095 | 38,566 | 8,348 | 2,509 | 4,107 |
| Total nonperforming assets | $231,257 | $152,604 | $73,521 | $38,908 | $33,021 |
| | | | | | |
| Nonperforming assets/total loans (including loans held for sale) and ORE | 3.48 % | 2.18 % | 1.02 % | 0.58 % | 0.56 % |
| | | | | | |
| Loans Past Due 90 days or more | | | | | |
| Loans held for investment | $8,901 | $5,139 | $4,853 | $2,957 | $2,719 |
| | | | | | |
| Serviced GNMA loans eligible for repurchase (no obligation to repurchase) | $46,661 | $18,095 | $11,847 | $8,510 | $22,769 |

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

As reported in the table above, Government National Mortgage Association (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 the five years ended December 31, 2009, Trustmark has not exercised their buy-back option on any delinquent loans serviced for GNMA.

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The following table illustrates nonaccrual loans by loan type for the past five years:

Nonaccrual Loans by Loan Type
($ in thousands)

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Construction, land development and other land loans | $81,805 | $72,582 | $45,999 | $2,182 | $1,797 |
| Secured by 1-4 family residential properties | 31,464 | 11,699 | 10,851 | 5,314 | 8,430 |
| Secured by nonfarm, nonresidential properties | 18,056 | 10,775 | 4,694 | 15,274 | 6,493 |
| Other loans secured by real estate | 2,097 | 3,351 | 165 | 75 | 681 |
| Commercial and industrial | 6,630 | 14,617 | 2,506 | 12,584 | 10,725 |
| Consumer loans | 973 | 976 | 883 | 754 | 430 |
| Other loans | 137 | 38 | 75 | 216 | 358 |
| Total Nonaccrual Loans by Type | $141,162 | $114,038 | $65,173 | $36,399 | $28,914 |

The following table illustrates other real estate by type of property for the past five years:

Other Real Estate by Property Type
($ in thousands)

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Construction, land development and other land loans | $60,276 | $28,824 | $3,635 | $408 | $868 |
| 1-4 family residential properties | 11,001 | 8,443 | 4,446 | 1,536 | 1,419 |
| Nonfarm, nonresidential properties | 7,285 | 1,220 | 174 | 565 | 1,820 |
| Other real estate loans | 11,533 | 79 | 93 | - | - |
| Total other real estate | $90,095 | $38,566 | $8,348 | $2,509 | $4,107 |

Trustmark has made significant progress in the resolution of its construction and land development portfolio in Florida. Over the last 24 months, this portfolio has been reduced by $187.3 million, or 48.5%, to $198.9 million. At December 31, 2009, Florida non-impaired construction and land development loans totaled $163.0 million with an associated reserve for loan losses of $23.9 million, or 14.7%.

As seen in the table below, at December 31, 2009, approximately $86.4 million in construction, land development and other loans have been classified and reserved for at appropriate levels, including $35.9 million of impaired loans that have been charged down to fair value of the underlying collateral less cost to sell. Management believes that this portfolio is appropriately risk rated and adequately reserved based upon current conditions.

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Florida Credit Quality
($ in thousands)

| | Total Loans | Criticized Loans (1) | Special Mention (2) | Classified (3) Accruing | Classified (3) Nonimpaired Nonaccrual | Impaired Nonaccrual (4) |
|---|---|---|---|---|---|---|
| Construction, land development and other land loans: | | | | | | |
| Lots | $61,725 | $24,735 | $- | $11,335 | $ 10,987 | $2,413 |
| Development | 27,227 | 17,336 | - | 3,964 | 770 | 12,602 |
| Unimproved land | 76,762 | 50,515 | 19,945 | 12,064 | 1,210 | 17,296 |
| 1-4 family construction | 10,929 | 4,608 | 1,489 | - | 419 | 2,700 |
| Other construction | 22,263 | 13,355 | 2,735 | 9,215 | 489 | 916 |
| Construction, land development and other land loans | 198,906 | 110,549 | 24,169 | 36,578 | 13,875 | 35,927 |
| Commercial, commercial real estate and consumer | 324,748 | 79,793 | 32,005 | 23,431 | 14,963 | 9,394 |
| Total Florida loans | $523,654 | $190,342 | $56,174 | $60,009 | $ 28,838 | $45,321 |

| Florida Credit Quality (continued) | Total Loans Less Impaired Loans | Loan Loss Reserves | Loan Loss Reserve % of Nonimpaired Loans |
|---|---|---|---|
| Construction, land development and other land loans: | | | |
| Lots | $ 59,312 | $ 7,588 | 12.79 % |
| Development | 14,625 | 2,578 | 17.63 % |
| Unimproved land | 59,466 | 9,707 | 16.32 % |
| 1-4 family construction | 8,229 | 449 | 5.46 % |
| Other construction | 21,347 | | |