TRUSTMARK CORP
Form 10-Q
August 06, 2007

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

Form 10-Q

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from ___________________ to ___________________

Commission file number 0-3683

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

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

(601) 208-6898
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of July 31, 2007, there were 57,264,283 shares outstanding of the registrant's common stock (no par value).

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) June 30, 2007	December 31, 2006
Assets		
Cash and due from banks (noninterest-bearing)	$ 292,248	$ 392,083
Federal funds sold and securities purchased under reverse repurchase agreements	20,081	27,259
Securities available for sale (at fair value)	608,906	758,273
Securities held to maturity (fair value: $277,769-2007; $290,905-2006)	281,403	292,243
Loans held for sale	132,588	95,375
Loans	6,769,632	6,563,153
Less allowance for loan losses	70,948	72,098
Net loans	6,698,684	6,491,055
Premises and equipment	144,263	134,372
Mortgage servicing rights	76,955	69,272
Goodwill	290,852	290,363
Identifiable intangible assets	30,528	32,960
Other assets	252,259	257,715
Total Assets	$ 8,828,767	$ 8,840,970
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,505,821	$ 1,574,769
Interest-bearing	5,563,364	5,401,395
Total deposits	7,069,185	6,976,164
Federal funds purchased and securities sold under repurchase agreements	503,442	470,434
Short-term borrowings	138,529	271,067
Subordinated notes	49,693	49,677
Junior subordinated debt securities	70,104	70,104
Other liabilities	111,654	112,189
Total Liabilities	7,942,607	7,949,635
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 57,264,283 shares - 2007; 58,676,586 shares - 2006	11,931	12,226
Capital surplus	122,185	158,856

Retained earnings		770,925		740,870
Accumulated other comprehensive loss, net of tax		(18,881)		(20,617)
Total Shareholders' Equity		886,160		891,335
Total Liabilities and Shareholders' Equity	$	8,828,767	$	8,840,970

See notes to consolidated financial statements.

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

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Interest Income				
Interest and fees on loans	$ 122,804	$ 102,637	$ 241,138	$ 199,552
Interest on securities:				
Taxable	9,018	10,853	18,098	21,928
Tax exempt	1,649	1,793	3,360	3,615
Interest on federal funds sold and securities purchased under reverse repurchase agreements	457	365	1,433	672
Other interest income	541	488	1,133	1,002
Total Interest Income	134,469	116,136	265,162	226,769
Interest Expense				
Interest on deposits	51,686	33,469	102,041	63,444
Interest on federal funds purchased and securities sold under repurchase agreements	5,014	5,748	8,827	10,804
Other interest expense	3,937	7,301	8,520	14,662
Total Interest Expense	60,637	46,518	119,388	88,910
Net Interest Income	73,832	69,618	145,774	137,859
Provision for loan losses	145	(1,964)	1,784	(4,948)
Net Interest Income After Provision for Loan Losses	73,687	71,582	143,990	142,807
Noninterest Income				
Service charges on deposit accounts	13,729	13,308	26,422	24,997
Insurance commissions	9,901	8,718	18,673	17,067
Wealth management	6,400	5,865	12,279	11,476
General banking - other	6,418	5,470	12,588	10,665
Mortgage banking, net	1,799	2,898	4,554	6,350
Other, net	2,194	2,740	4,018	4,268
Securities gains, net	29	384	87	1,250
Total Noninterest Income	40,470	39,383	78,621	76,073
Noninterest Expense				
Salaries and employee benefits	42,853	39,567	86,019	78,944
Services and fees	9,041	8,979	18,599	17,743
Net occupancy - premises	4,634	4,070	9,048	7,954
Equipment expense	4,048	3,589	7,952	7,232
Other expense	8,257	7,547	16,621	15,391
Total Noninterest Expense	68,833	63,752	138,239	127,264
Income Before Income Taxes	45,324	47,213	84,372	91,616
Income taxes	15,496	16,439	28,687	31,523
Net Income	$ 29,828	$ 30,774	$ 55,685	$ 60,093
Earnings Per Share				
Basic	$ 0.52	$ 0.55	$ 0.96	$ 1.08
Diluted	$ 0.51	$ 0.55	$ 0.95	$ 1.08

Dividends Per Share	$	0.22	$	0.21	$	0.44	$	0.42

See notes to consolidated financial statements.

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

	2007	2006
Balance, January 1,	$ 891,335	$ 741,463
Cumulative effect adjustment due to change in accounting for mortgage servicing rights	-	848
Cumulative effect adjustment due to change in accounting for prior year immaterial misstatements	-	(8,398)
Comprehensive income:		
Net income per consolidated statements of income	55,685	60,093
Net change in fair value of securities available for sale, net of tax	1,126	(3,783)
Net change in defined benefit plans	610	-
Comprehensive income	57,421	56,310
Cash dividends paid	(25,630)	(23,377)
Common stock issued, long-term incentive plan	239	2,018
Compensation expense, long-term incentive plan	1,654	1,547
Repurchase and retirement of common stock	(38,859)	(17,534)
Balance, June 30,	$ 886,160	$ 752,877

See notes to consolidated financial statements.

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

	Six Months Ended June 30, 2007	(See Note 11) 2006
Operating Activities		
Net income	$ 55,685	$ 60,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,784	(4,948)
Depreciation and amortization	13,676	12,546
Net amortization of securities	356	2,417
Securities gains, net	(87)	(1,250)
Gains on sales of loans	(3,072)	(2,900)
Deferred income tax provision	2,924	5,903
Excess tax benefit from exercise of stock options	(7)	(239)
Proceeds from sales of loans held for sale	579,487	535,455
Purchases and originations of loans held for sale	(607,680)	(537,600)
Net increase in mortgage servicing rights	(8,329)	(8,506)
Net (increase) decrease in other assets	(771)	2,904
Net increase in other liabilities	460	929
Other operating activities, net	(2,815)	(3,038)
Net cash provided by operating activities	31,611	61,766
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	10,909	4,856
Proceeds from calls and maturities of securities available for sale	181,676	168,083
Proceeds from sales of securities available for sale	62,170	11,052
Purchases of securities held to maturity	-	(6,199)
Purchases of securities available for sale	(93,012)	(62,661)
Net decrease in federal funds sold and securities purchased under reverse repurchase agreements	7,178	96,695
Net increase in loans	(209,182)	(112,148)
Purchases of premises and equipment	(15,554)	(10,816)
Proceeds from sales of premises and equipment	191	1,728
Proceeds from sales of other real estate	1,116	1,921
Net cash (used in) provided by investing activities	(54,508)	92,511
Financing Activities		
Net increase in deposits	93,021	80,499
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	33,008	(5,843)
Net decrease in other borrowings	(138,717)	(224,082)
Cash dividends	(25,630)	(23,377)
Proceeds from exercise of stock options	232	1,779
Excess tax benefit from exercise of stock options	7	239
Repurchase and retirement of common stock	(38,859)	(17,534)

Net cash used in financing activities		(76,938)		(188,319)
Decrease in cash and cash equivalents		(99,835)		(34,042)
Cash and cash equivalents at beginning of period		392,083		387,930
Cash and cash equivalents at end of period	$	292,248	$	353,888

See notes to consolidated financial statements.

- 5 -

TRUSTMARK CORPORATION & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2006 annual report on Form 10-K. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. For the periods presented in this Form 10-Q, these reclassifications include Trustmark's investment in the stock of the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) that have been reclassed from investment securities to other assets since these equity securities do not have a readily determinable fair value which places them outside the scope of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Period end balances of FRB and FHLB stock totaled $25.3 million at June 30, 2007, $34.0 million at December 31, 2006 and $28.7 million at June 30, 2006. In addition, Trustmark has also reclassed its investment in Qualified Zone Academy Bonds (QZABs) from other assets into loans. QZABs are part of a federal initiative that provides funds on a limited basis to schools that meet very specific criteria for construction and modernization projects. Interest payments on QZABs, which are covered by the federal government, are provided to Trustmark in the form of a tax credit, in lieu of cash. Trustmark's investment in QZABs will be measured in accordance with SFAS No. 115 since these investments meet the definition of a security, however, since Trustmark consistently reports investments of this nature as loans to states and political subdivisions, they have been classified as loans. Period end balances of QZABs totaled $21.3 million at both June 30, 2007 and December 31, 2006 with the June 30, 2006 balance equaling $19.9 million.

Management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included.

NOTE 2 – BUSINESS COMBINATIONS

On August 25, 2006, Trustmark completed its merger with Houston-based Republic Bancshares of Texas, Inc. (Republic) in a business combination accounted for by the purchase method of accounting. Trustmark purchased all the outstanding common and preferred shares of Republic for approximately $205.3 million. The purchase price includes approximately 3.3 million in common shares of Trustmark valued at $103.8 million, $100.0 million in cash and $1.5 million in acquisition-related costs. The purchase price allocations are preliminary and are subject to final determination and valuation of the fair value of assets acquired and liabilities assumed. At August 25, 2006, Republic had assets consisting of $21.1 million in cash and due from banks, $64.5 million in federal funds sold, $76.5 million in securities, $458.0 million in loans, $9.0 million in premises and equipment and $18.9 million in other assets as well as deposits of $593.3 million and borrowings and other liabilities of $13.8 million. These assets and liabilities have been recorded at estimated fair value based on market conditions and risk characteristics at the acquisition date. Excess costs over tangible net assets acquired totaled $173.5 million, of which $19.3 million has been allocated to core deposits, $690 thousand to borrower relationships and $153.5 million to goodwill.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2007	December 31, 2006
Loans secured by real estate:		
Construction, land development and other land loans	$ 1,059,721	$ 896,254
Secured by 1-4 family residential properties	1,827,945	1,842,886
Secured by nonfarm, nonresidential properties	1,268,236	1,326,658
Other	132,833	148,921
Loans to finance agricultural production and other loans to farmers	38,999	23,938
Commercial and industrial loans	1,163,346	1,106,460
Consumer loans	1,018,427	934,261
Obligations of states and political subdivisions	205,431	233,666
Other loans	54,694	50,109
Loans	6,769,632	6,563,153
Less allowance for loan losses	70,948	72,098
Net loans	$ 6,698,684	$ 6,491,055

The following table summarizes the activity in the allowance for loan losses for the periods presented ($ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Beginning balance	$ 72,049	$ 73,542	$ 72,098	$ 76,691
Loans charged off	(4,187)	(2,983)	(8,469)	(5,818)
Recoveries	2,941	3,251	5,535	5,921
Net (charge-offs) recoveries	(1,246)	268	(2,934)	103
Provision for possible loan losses	145	(1,964)	1,784	(4,948)
Balance at end of period	$ 70,948	$ 71,846	$ 70,948	$ 71,846

During the third quarter of 2005, following Hurricane Katrina (Katrina), Trustmark identified customers specifically impacted by the storm in an effort to estimate the loss of collateral value and customer payment abilities. In accordance with SFAS No. 5, “Accounting for Contingencies,” Trustmark determined, through reasonable estimates, that specific losses were probable and initially increased its allowance for loan losses by $9.8 million, on a pretax basis. Trustmark continually reevaluates its estimates for probable losses resulting from Katrina. As a result, during 2007, Trustmark has reduced its allowance for loan losses by $0.8 million on a pretax basis. At June 30, 2007, the allowance for loan losses included specific Katrina accruals totaling $1.3 million, comprised of $0.9 million for mortgage loans and $0.4 million for consumer loans. Management’s estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as the information changes, actual results could differ from those estimates.

The allowance for loan losses is maintained at a level believed adequate by Management, based on estimated probable losses within the existing loan portfolio. Trustmark’s allowance for possible loan loss methodology is based on guidance provided in SEC Staff Accounting Bulletin No. 102, “Selected Loan Loss Allowance Methodology and

Documentation Issues," as well as other regulatory guidance. Accordingly, Trustmark's methodology is based on historical loss experience by type of loan and internal risk ratings, homogeneous risk pools and specific loss allocations, with adjustments considering current economic events and conditions. This evaluation is inherently subjective, as it requires material estimates, including the amounts and timings of future cash flows expected to be received on impaired loans that may be susceptible to significant changes.

At June 30, 2007 and 2006, the carrying amounts of nonaccrual loans were $27.8 million and $25.1 million, respectively. Included in these nonaccrual loans at June 30, 2007 and 2006, are loans that are considered to be impaired, which totaled $19.8 million and $20.5 million, respectively. At June 30, 2007, the total allowance for loan losses related to impaired loans was $4.4 million compared with $3.7 million at June 30, 2006. The average recorded investment in impaired loans was $25.7 million and $28.4 million for the three and six months ended June 30, 2007 and $20.8 million and $20.9 million for the three and six months ended June 30, 2006. No material amounts of interest income were recognized on impaired loans or nonaccrual loans for the six months ended June 30, 2007 and 2006.

NOTE 4 – MORTGAGE BANKING

The fair value of MSR is determined using discounted cash flow techniques benchmarked against third party opinions of value. Estimates of fair value involve several assumptions, including the key valuation assumptions about market expectations of future prepayment rates, interest rates and discount rates. At June 30, 2007, the valuation of MSR included an assumed average prepayment speed of 8.01 CPR and an average discount rate of 9.93%. Prepayment rates are projected using an industry standard prepayment model. The model considers other key factors, such as a wide range of standard industry assumptions tied to specific portfolio characteristics such as remittance cycles, escrow payment requirements, geographic factors, foreclosure loss exposure, VA no-bid exposure, delinquency rates and cost of servicing including base cost and cost to service delinquent mortgages. Prevailing market conditions at the time of analysis are factored into the accumulation of assumptions and determination of servicing value.

Trustmark utilizes derivative instruments to offset changes in the fair value of MSR attributable to changes in market rates. Changes in the fair value of the derivative instruments are recorded in mortgage banking income, net and are offset by the changes in the fair value of MSR, as shown in the accompanying table. MSR fair values represent the effect of present value decay and the effect of changes in market rates. Ineffectiveness of hedging MSR fair value is measured by comparing total hedge cost to the fair value of the MSR asset attributable to market changes. During 2007, the impact of implementing this strategy resulted in a net negative ineffectiveness of $0.8 million.

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

	Six Months Ended June 30,	
	2007	2006
Balance at beginning of period	$ 69,272	$ 58,424
Cumulative-effect adjustment - change in accounting for MSR	-	1,373
Additions:		
Purchase of servicing assets	6,646	6,267
Servicing assets that resulted from transfers of financial assets	2,747	3,148
Disposals	(1,057)	(1,367)
Change in fair value:		
Due to market changes	3,945	6,014
Due to runoff	(4,598)	(4,452)
Due to other	-	(426)
Balance at end of period	$ 76,955	$ 68,981

NOTE 5 - DEPOSITS

At June 30, 2007 and December 31, 2006, deposits consisted of the following ($ in thousands):

	June 30, 2007	December 31, 2006
Noninterest-bearing demand deposits	$ 1,505,821	$ 1,574,769
Interest-bearing deposits:		
Interest-bearing demand	1,256,870	1,139,238
Savings	1,696,437	1,664,804
Time	2,610,057	2,597,353
Total interest-bearing deposits	5,563,364	5,401,395
Total deposits	$ 7,069,185	$ 6,976,164

NOTE 6 - STOCK AND INCENTIVE COMPENSATION PLANS

On May 10, 2005, the shareholders of Trustmark approved the Trustmark Corporation 2005 Stock and Incentive Compensation Plan (the 2005 Plan), which was adopted by the Board of Directors and replaced the Trustmark Corporation 1997 Long Term Incentive Plan (the 1997 Plan). The purpose of the 2005 Plan is to promote the success of Trustmark and its subsidiaries by providing incentives to key associates and directors that will promote the identification of their personal interest with the long term financial success of Trustmark and with growth in shareholder value. The 2005 Plan is designed to provide flexibility to Trustmark regarding its ability to motivate, attract and retain the services of key associates and directors upon whose judgment, interest and special efforts the successful conduct of its operations is largely dependent. The 2005 Plan allows Trustmark to make grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance units to key associates and directors.

Effective January 1, 2006, Trustmark adopted the provisions of SFAS No. 123R, “Share-Based Payment,” a revision of SFAS No. 123, “Accounting for Stock-Based Compensation.” This statement establishes fair value as the measurement objective in accounting for stock awards and requires the application of a fair value based measurement method in accounting for compensation cost, which is recognized over the requisite service period. Trustmark implemented the provisions of this statement using the modified prospective approach, which applies to new awards, as well as, any previously granted awards outstanding on January 1, 2006. Compensation cost for the portion of awards for which the requisite service had not been rendered as of the date of adoption, is being recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes previously under SFAS No. 123. Prior period amounts have not been restated to reflect the impact of the adoption of SFAS No. 123R.

Stock Option Grants

During the first six months of 2007, there were no stock option awards. While Trustmark has historically issued nonqualified stock options to key associates, corporate America has begun migrating towards awards of actual stock grants based upon corporate performance or tenure with the company. As such, Trustmark has made a decision to award restricted stock grants designed with either a performance-based or time-based restriction instead of nonqualified stock options.

Stock option-based compensation expense totaled $611 thousand and $892 thousand for the first six months of 2007 and 2006, respectively. Stock option-based compensation expense totaled $109 thousand and $474 thousand for the three months ended June 30, 2007 and 2006, respectively.

Restricted Stock Grants

Performance Awards

During the first six months of 2007, Trustmark awarded 70,500 shares of restricted stock to 27 key members of Trustmark's executive management team, as well as 4,750 shares of restricted stock to the Trustmark Board of Directors. These performance awards vest based on performance goals of return on average tangible equity (ROATE) and total shareholder return (TSR) compared to a defined peer group. These awards are restricted until December 31, 2009. Awards based on TSR are valued under SFAS No. 123R utilizing a Monte Carlo simulation to estimate fair value of the awards at the grant date, while ROATE awards are valued under SFAS No. 123R, utilizing the fair value of Trustmark's stock at the grant date based on the estimated number of shares expected to vest.

Time-Vested Awards

Trustmark's time-vested awards are granted as an incentive in both employee recruitment and retention and are issued to non-executive management associates. During 2007, Trustmark awarded 35,500 shares of time-vested awards, which are restricted for thirty-six months from the award dates. During the second quarter, 33,500 of these shares were awarded, while 2,000 shares were awarded during the first quarter. The weighted average share price of the shares awarded during 2007 was $28.65.

During the first six months of 2007 and 2006, Trustmark recorded compensation expense for restricted stock awards of $1.0 million and $655 thousand, respectively. During the three-month period ended June 30, 2007 and 2006, Trustmark recorded compensation expense for restricted stock awards of $429 thousand and $456 thousand, respectively.

NOTE 7 – BENEFIT PLANS

In December 2006, Trustmark adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

Pension Plan

Trustmark maintains a noncontributory defined benefit pension plan (Trustmark Capital Accumulation Plan), which covers substantially all associates employed prior to January 1, 2007. The plan provides retirement benefits that are based on the length of credited service and final average compensation as defined in the plan and vests upon five years of service.

As a result of the adoption of SFAS No. 158, Trustmark elected to move its measurement date for the plan to December 31 from October 31. The following table presents information regarding the net periodic benefit cost for the three and six-month periods ended June 30, 2007 and 2006 ($ in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net periodic benefit cost				
Service cost	$ 326	$ 654	$ 653	$ 1,308
Interest cost	1,175	1,098	2,349	2,196
Expected return on plan assets	(1,323)	(1,307)	(2,645)	(2,615)
Amortization of prior service cost	(128)	(88)	(255)	(175)
Recognized net actuarial loss	564	613	1,127	1,227
Net periodic benefit cost	$ 614	$ 970	$ 1,229	$ 1,941

The acceptable range of contributions to the plan is determined each year by the plan's actuary. Trustmark's policy is to fund amounts allowable for federal income tax purposes. In 2007, Trustmark's minimum required contribution is zero. The actual amount of the contribution is determined based on the plan's funded status and return on plan assets as of the measurement date, which was December 31, 2006 for amounts related to 2007 and October 31, 2005 for amounts related to 2006.

Supplemental Retirement Plan
Trustmark maintains a non-qualified supplemental retirement plan covering directors that elect to defer fees, key executive officers and senior officers. The plan provides for defined death benefits and/or retirement benefits based on a participant's covered salary. Trustmark has acquired life insurance contracts on the participants covered under the plan, which may be used to fund future payments under the plan. The measurement date for the plan is December 31.

The following table presents information regarding the plan's net periodic benefit cost for the three and six-month periods ended June 30, 2007 and 2006 ($ in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net periodic benefit cost				
Service cost	$ 328	$ 401	$ 648	$ 805
Interest cost	454	413	908	826
Amortization of prior service cost	35	34	70	69
Recognized net actuarial loss	24	36	47	74
Net periodic benefit cost	$ 841	$ 884	$ 1,673	$ 1,774

NOTE 8 – CONTINGENCIES

Letters of Credit
Standby and commercial letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third party. In the normal course of business, in order to fulfill the financing needs of its customers, Trustmark issues financial and performance standby letters of credit. A financial standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral which are followed in the lending process.

At June 30, 2007 and 2006, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for standby and commercial letters of credit was $168.3 million and $114.1 million, respectively. These amounts consist primarily of commitments with maturities of less than three years, which have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of June 30, 2007, the fair value of collateral held was $47.5 million.

Legal Proceedings
Trustmark and its subsidiaries are parties to 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.

NOTE 9 – SUBORDINATED NOTES PAYABLE AND JUNIOR SUBORDINATED DEBT SECURITIES

In December 2006, Trustmark National Bank (TNB) issued $50.0 million aggregate principal amount of Subordinated Notes (the Notes) due December 15, 2016. At June 30, 2007, the carrying amount of the Notes was $49.7 million. The Notes, which are not redeemable prior to maturity, qualify as Tier 2 capital for both TNB and Trustmark. Proceeds from the sale of the Notes were used for general corporate purposes.

On August 18, 2006, Trustmark completed a private placement of $60.0 million of trust preferred securities through its Delaware trust affiliate, Trustmark Preferred Capital Trust I, (the Trust). Under applicable regulatory guidelines, these trust preferred securities qualify as Tier 1 capital. The proceeds from the sale of the trust preferred securities were used by the Trust to purchase $61.9 million in aggregate principal amount of Trustmark's junior subordinated debentures.

In addition, pursuant to the acquisition of Republic Bancshares of Texas, Inc. on August 25, 2006, Trustmark assumed the liability for $8.2 million in junior subordinated debt securities issued to Republic Bancshares Capital Trust I (Republic Trust), also a Delaware trust. Republic Trust used the proceeds from the issuance of $8.0 million in trust preferred securities to acquire the junior subordinated debt securities. Under applicable regulatory guidelines, these trust preferred securities qualify as Tier 1 capital.

As defined in applicable accounting standards, both Trustmark Preferred Capital Trust I and Republic Bancshares Capital Trust I, wholly-owned subsidiaries of Trustmark, 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.

NOTE 10 – EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Basic shares	57,807	55,565	58,156	55,630
Dilutive shares (related to stock options)	218	269	259	176
Diluted shares	58,025	55,834	58,415	55,806

NOTE 11 - STATEMENTS OF CASH FLOWS

Trustmark paid $27.1 million in income taxes during the first half of 2007, compared to $25.5 million during the first half of 2006. Interest paid on deposit liabilities and other borrowings approximated $119.1 million in the first half of 2007 and $86.2 million in the first half of 2006. For the six months ended June 30, 2007 and 2006, noncash transfers from loans to foreclosed properties were $2.6 million and $1.2 million, respectively.

During the quarter ended March 31, 2007, Trustmark identified an immaterial error in its statements of cash flows for prior periods. Trustmark improperly reported certain noncash transactions relating to GNMA mortgage loans eligible for repurchase in various components within the cash flow statements. These changes had no impact to the overall total of cash inflows and outflows within the cash flow statements. Trustmark has deemed these changes immaterial to its consolidated financial statements taken as a whole. Please see Trustmark's Form 10-Q for the period ended March 31, 2007 for changes made in cash flow statements for the years ended December 31, 2006 and December 31, 2005 as well as the quarter ended March 31, 2006. The following table reflects the changes in the cash flow statements for the six months ended June 30, 2006 ($ in thousands):

	As Originally Reported	Adjustment	As Adjusted
Six Months Ended June 30, 2006			
Net cash provided by operating activities	$ 74,190	$ (12,424)	$ 61,766
Net cash provided by investing activities	127,631	(35,120)	92,511
Net cash used in financing activities	(235,863)	47,544	(188,319)
Decrease in cash and cash equivalents	(34,042)	-	(34,042)
Cash and cash equivalents at beginning of period	387,930	-	387,930
Cash and cash equivalents at end of period	$ 353,888	$ -	$ 353,888

NOTE 12 – SEGMENT INFORMATION

Trustmark's management reporting structure includes four segments: general banking, wealth management, insurance and administration. General banking is responsible for all traditional banking products and services, including loans and deposits. Wealth management provides customized solutions for affluent customers by integrating financial services with traditional banking products and services such as private banking, money management, full-service brokerage, financial planning, personal and institutional trust, and retirement services, as well as insurance and risk management services provided by TRMK Risk Management, Inc., a wholly owned subsidiary of TNB. Insurance includes two wholly-owned subsidiaries of TNB: The Bottrell Insurance Agency and Fisher-Brown, Incorporated. 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 coverages. Administration includes all other activities that are not directly attributable to one of the major lines of business. Administration consists of internal operations such as Human Resources, Executive Administration, Treasury (Funds Management) and Corporate Finance.

The accounting policies of each reportable segment are the same as those of Trustmark except for its internal allocations. Trustmark uses a match-funded transfer pricing process to assess operating segment performance. Noninterest expenses for back-office operations support are allocated to segments based on estimated uses of those services. In the first six months of 2007, Trustmark updated its estimates for probable losses resulting from Katrina and released provision for loan losses of $642 thousand on a pretax basis. Management has determined that these adjustments, due to their unusual nature, should be included in the administration division.

The following tables disclose financial information by reportable segment for the periods ended June 30, 2007 and 2006.

Trustmark Corporation
Segment Information
($ in thousands)

For the three months ended	General Banking Division	Wealth Management Division	Insurance Division	Administration Division	Total
June 30, 2007					
Net interest income (expense) from external customers	$ 71,167	$ 1,127	$ (1)	$ 1,539	$ 73,832
Internal funding	(2,130)	(117)	-	2,247	-
Net interest income (expense)	69,037	1,010	(1)	3,786	73,832
Provision for loan losses	1,385	(19)	-	(1,221)	145
Net interest income (expense) after provision for loan losses	67,652	1,029	(1)	5,007	73,687
Noninterest income	24,242	6,528	9,919	(219)	40,470
Noninterest expense	49,727	4,966	6,254	7,886	68,833
Income (loss) before income taxes	42,167	2,591	3,664	(3,098)	45,324
Income taxes (benefit)	14,542	916	1,423	(1,385)	15,496
Segment net income (loss)	$ 27,625	$ 1,675	$ 2,241	$ (1,713)	$ 29,828
Selected Financial Information					
Average assets	$ 7,267,903	$ 89,263	$ 19,412	$ 1,429,079	$ 8,805,657
Depreciation and amortization	$ 5,439	$ 101	$ 102	$ 1,412	$ 7,054
For the three months ended June 30, 2006					
Net interest income (expense) from external customers	$ 67,822	$ 1,248	$ (2)	$ 550	$ 69,618
Internal funding	(1,459)	(195)	-	1,654	-
Net interest income (expense)	66,363	1,053	(2)	2,204	69,618
Provision for loan losses	(151)	(6)	-	(1,807)	(1,964)
Net interest income (expense) after provision for loan losses	66,514	1,059	(2)	4,011	71,582
Noninterest income	23,663	5,948	8,934	838	39,383
Noninterest expense	44,930	4,785	5,750	8,287	63,752
Income (loss) before income taxes	45,247	2,222	3,182	(3,438)	47,213
Income taxes (benefit)	15,603	804	1,241	(1,209)	16,439
Segment net income (loss)	$ 29,644	$ 1,418	$ 1,941	$ (2,229)	$ 30,774
Selected Financial Information					
Average assets	$ 6,584,264	$ 87,638	$ 24,647	$ 1,462,327	$ 8,158,876
Depreciation and amortization	$ 5,458	$ 113	$ 99	$ 938	$ 6,608

Trustmark Corporation
Segment Information
($ in thousands)

For the six months ended	General Banking Division	Wealth Management Division	Insurance Division	Administration Division	Total
June 30, 2007					
Net interest income (expense) from external customers	$ 139,261	$ 2,267	$ (2)	$ 4,248	$ 145,774
Internal funding	(1,400)	(291)	-	1,691	-
Net interest income (expense)	137,861	1,976	(2)	5,939	145,774
Provision for loan losses	2,377	(20)	-	(573)	1,784
Net interest income (expense) after provision for loan losses	135,484	1,996	(2)	6,512	143,990
Noninterest income	47,854	12,525	18,725	(483)	78,621
Noninterest expense	100,056	9,988	12,098	16,097	138,239
Income (loss) before income taxes	83,282	4,533	6,625	(10,068)	84,372
Income taxes (benefit)	28,751	1,609	2,568	(4,241)	28,687
Segment net income (loss)	$ 54,531	$ 2,924	$ 4,057	$ (5,827)	$ 55,685
Selected Financial Information					
Average assets	$ 7,230,770	$ 87,500	$ 19,386	$ 1,472,541	$ 8,810,197
Depreciation and amortization	$ 10,441	$ 211	$ 200	$ 2,824	$ 13,676
For the six months ended June 30, 2006					
Net interest income (expense) from external customers	$ 133,922	$ 2,057	$ (4)	$ 1,884	$ 137,859
Internal funding	(2,643)	59	-	2,584	-
Net interest income (expense)	131,279	2,116	(4)	4,468	137,859
Provision for loan losses	204	(8)	-	(5,144)	(4,948)
Net interest income (expense) after provision for loan losses	131,075	2,124	(4)	9,612	142,807
Noninterest income	45,518	11,777	17,239	1,539	76,073
Noninterest expense	90,188	9,467	11,468	16,141	127,264
Income (loss) before income taxes	86,405	4,434	5,767	(4,990)	91,616
Income taxes (benefit)	29,786	1,613	2,245	(2,121)	31,523
Segment net income (loss)	$ 56,619	$ 2,821	$ 3,522	$ (2,869)	$ 60,093
Selected Financial Information					
Average assets	$ 6,568,031	$ 87,481	$ 24,250	$ 1,501,221	$ 8,180,983
Depreciation and amortization	$ 10,257	$ 212	$ 199	$ 1,878	$ 12,546

NOTE 13 – RECENT PRONOUNCEMENTS

Accounting Standards Adopted in 2007

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. Trustmark adopted FIN 48 on January 1, 2007 and, at the date of adoption, had unrecognized tax benefits of $1.0 million. Trustmark did not record any cumulative effect adjustment to retained earnings as a result of the adoption of FIN 48. The entire $1.0 million of unrecognized tax benefits would impact the effective income tax rate if recognized. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of January 1, 2007, Trustmark had $78 thousand of accrued interest expense included in the $1.0 million of unrecognized tax benefits. With limited exception, Trustmark is no longer subject to U. S. federal, state and local audits by tax authorities for 2002 and earlier tax years. As of June 30, 2007, there have been no material changes to the amount of unrecognized tax benefits. Trustmark does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

New Accounting Standards

Other new pronouncements issued but not effective until after June 30, 2007 are not expected to have a significant effect on Trustmark's balance sheets or results of operations, with the possible exception of the following, which are currently being evaluated by Management:

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument-by-instrument basis, is typically irrevocable once elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. Management is currently evaluating the impact that SFAS No. 159 will have on Trustmark's balance sheets and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Provisions of SFAS No. 157 must be applied prospectively as of the beginning of the first fiscal year in which the accounting standard is applied. Management is currently evaluating the impact that SFAS No. 157 will have on Trustmark's balance sheets and results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Management's Discussion and Analysis are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. 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.

These risks could cause actual results to differ materially from current expectations of Management and include, but are not limited to, changes in the level of nonperforming assets and charge-offs, local, state and national economic and market conditions, material changes in market interest rates, the costs and effects of litigation and of unexpected or adverse outcomes in such litigation, competition in loan and deposit pricing, as well as the entry of new competitors into our markets through de novo expansion and acquisitions, changes in existing regulations or the adoption of new regulations, natural disasters, acts of war or terrorism, changes in consumer spending, borrowing and saving habits, technological changes, changes in the financial performance or condition of Trustmark's borrowers, the ability to control expenses, changes in Trustmark's compensation and benefit plans, greater than expected costs or difficulties related to the integration of new products and lines of business and other risks described in Trustmark's filings with the Securities and Exchange Commission.

Although Management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Trustmark undertakes no obligation to update or revise any of this information, whether as the result of new information, future events or developments or otherwise.

OVERVIEW

Business

Trustmark is a multi-bank holding company headquartered in Jackson, Mississippi, incorporated under the Mississippi Business Corporation Act on August 5, 1968. Trustmark commenced doing business in November 1968. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions through approximately 150 offices and 2,700 associates predominantly within the states of Florida, Mississippi, Tennessee and Texas.

Trustmark National Bank (TNB), Trustmark's wholly-owned subsidiary, accounts for over 98% of the assets and revenues of Trustmark. Initially chartered by the state of Mississippi in 1889, TNB is also headquartered in Jackson, Mississippi. In addition to banking activities, TNB provides investment and insurance products and services to its customers through its wholly-owned subsidiaries, Trustmark Investment Advisors, Inc., The Bottrell Insurance Agency, Inc., TRMK Risk Management, Inc., and Fisher-Brown, Incorporated. TNB also owns all of the stock of Trustmark Securities, Inc., which became an inactive subsidiary during 2006.

Trustmark also engages in banking activities through its wholly-owned subsidiary, Somerville Bank & Trust Company (Somerville), headquartered in Somerville, Tennessee. Somerville was acquired in a business combination during 2001 and presently has five locations in Somerville, Hickory Withe and Rossville, Tennessee. Trustmark also owns all of the stock of F. S. Corporation and First Building Corporation, both inactive nonbank Mississippi corporations.

In order to facilitate a private placement of trust preferred securities, Trustmark formed a Delaware trust affiliate, Trustmark Preferred Capital Trust I (Trustmark Trust). Also, as a result of the acquisition of Republic Bancshares of Texas, Inc., Trustmark now owns Republic Bancshares Capital Trust I (Republic Trust), a Delaware trust affiliate. As defined in applicable accounting standards, both Trustmark Trust and Republic Trust, wholly-owned subsidiaries of Trustmark, 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.

Financial Highlights

Trustmark's net income totaled $29.8 million in the second quarter of 2007, which represented basic and diluted earnings per share of $0.52 and $0.51, respectively. Net income for the second quarter of 2006 totaled $30.8 million resulting in basic and diluted earnings per share of $0.55. Trustmark's second quarter net income produced returns on average shareholders' equity and average assets of 13.37% and 1.36%, respectively, compared with second quarter 2006 returns of 16.29% and 1.51%. During the first six months of 2007, Trustmark's net income totaled $55.7 million, which represented basic and diluted earnings per share of $0.96 and $0.95, respectively. Trustmark's performance during the first six months of 2007 resulted in returns on average shareholders' equity and average assets of 12.52% and 1.27%, respectively, compared with the first six months of 2006 returns of 16.15% and 1.48%, respectively. Highlights of the second quarter of 2007 compared to figures one year earlier included:

- Average total loans in the second quarter of 2007 increased $685.4 million, or 11.2%
- Average total deposits in the second quarter of 2007 increased $940.7 million, or 15.3%
- Net interest income expanded $4.1 million, or 5.7%
- Insurance and Wealth Management income grew 13.6% and 9.1%, respectively
- Credit quality remained outstanding

Business Combinations

On August 25, 2006, Trustmark completed its merger with Houston-based Republic Bancshares of Texas, Inc. (Republic) in a business combination accounted for by the purchase method of accounting. Trustmark purchased all the outstanding common and preferred shares of Republic for approximately $205.3 million. The purchase price includes approximately 3.3 million in common shares of Trustmark valued at $103.8 million, $100.0 million in cash and $1.5 million in acquisition-related costs. The purchase price allocations are preliminary and are subject to final determination and valuation of the fair value of assets acquired and liabilities assumed. At August 25, 2006, Republic had assets consisting of $21.1 million in cash and due from banks, $64.5 million in federal funds sold, $76.5 million in securities, $458.0 million in loans, $9.0 million in premises and equipment and $18.9 million in other assets as well as deposits of $593.3 million and borrowings and other liabilities of $13.8 million. These assets and liabilities have been recorded at fair value based on market conditions and risk characteristics at the acquisition date. Excess costs over tangible net assets acquired totaled $173.5 million, of which $19.3 million has been allocated to core deposits, $690 thousand to borrower relationships and $153.5 million to goodwill. Trustmark's financial statements include the results of operations for the Republic business combination from the merger date.

Banking Center Expansion Program

During the second quarter of 2007, Trustmark continued to make investments to support additional revenue growth and profitability as well as to reallocate resources to areas with additional growth potential. To this end, Trustmark opened two new banking centers in Houston and Memphis during the second quarter of 2007 and anticipates the opening of four additional offices serving the Jackson, Hattiesburg, Houston and Florida panhandle markets during the remainder of this year. Trustmark also closed three offices during the second quarter of 2007 that had limited growth opportunities. These actions reflect Management's commitment to build long-term value for shareholders.

Significant Accounting Transactions for 2007

During the third quarter of 2005, immediately following the aftermath of Hurricane Katrina (Katrina), Trustmark initiated a process to assess the storm's impact on its customers and on Trustmark's consolidated financial statements. In accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies," Trustmark determined, through reasonable estimates, that specific losses were probable and initially increased its allowance for loan losses by $9.8 million and established other accruals for losses totaling $2.1 million, on a pretax basis.

Trustmark updates its estimates for probable losses resulting from Katrina on a quarterly basis. As a result, Trustmark has reduced its allowance for loan losses during 2007 by $0.8 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. The accompanying table reflects the quarterly financial impact these changes in estimates had on reported earnings.

At June 30, 2007, the allowance for loan losses included specific Katrina accruals totaling $1.3 million, comprised of $0.9 million for mortgage loans and $0.4 million for consumer loans. Management's estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as the information changes, actual results could differ from those estimates.

Management is presenting, in the accompanying table, adjustments to net income as reported in accordance with generally accepted accounting principles for significant items resulting from Katrina. Management believes this information will help users compare Trustmark's current results to those of prior periods.

	Quarter Ended			
	6/30/2007		6/30/2006	
	Amount	**Basic EPS**	**Amount**	**Basic EPS**
Net Income as reported-GAAP	$ 29,828	$ 0.516	$ 30,774	$ 0.554
Adjustments (net of taxes):				
Less items related to Hurricane Katrina				
Provision for loan losses	-	-	(1,047)	(0.019)
Mortgage related charges	-	-	(164)	(0.003)
	-	-	(1,211)	(0.022)
Net Income adjusted for specific items (Non-GAAP)	$ 29,828	$ 0.516	$ 29,563	$ 0.532

	Year-to-Date			
	6/30/2007		6/30/2006	
	Amount	**Basic EPS**	**Amount**	**Basic EPS**
Net Income as reported-GAAP	$ 55,685	$ 0.958	$ 60,093	$ 1.080
Adjustments (net of taxes):				
Less items related to Hurricane Katrina				