

TRUSTMARK CORP  
Form 10-Q  
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-03683

Trustmark Corporation

(Exact name of registrant as specified in its charter)

Mississippi 64-0471500  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

248 East Capitol Street, Jackson, Mississippi 39201  
(Address of principal executive offices) (Zip Code)

(601) 208-5111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b of the Exchange Act.

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

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

As of April 30, 2016, there were 67,616,209 shares outstanding of the registrant’s common stock (no par value).



## Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “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 “Risk Factors” in Trustmark’s filings with the Securities and Exchange Commission could have an adverse effect on our business, results of operations and financial condition. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary significantly from those anticipated, estimated, projected or expected.

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

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

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Trustmark Corporation and Subsidiaries

## Consolidated Balance Sheets

(\$ in thousands)

	(Unaudited)	
	March 31,	December 31,
	2016	2015
<b>Assets</b>		
Cash and due from banks (noninterest-bearing)	\$228,498	\$277,751
Federal funds sold and securities purchased under reverse repurchase agreements	—	250
Securities available for sale (at fair value)	2,368,120	2,345,422
Securities held to maturity (fair value: \$1,199,213-2016; \$1,195,367-2015)	1,168,203	1,187,818
Loans held for sale (LHFS)	191,028	160,189
Loans held for investment (LHFI)	7,268,022	7,091,385
Less allowance for loan losses, LHFI	69,668	67,619
Net LHFI	7,198,354	7,023,766
Acquired loans:		
Noncovered loans	349,781	372,711
Covered loans	14,974	17,700
Less allowance for loan losses, acquired loans	13,535	11,992
Net acquired loans	351,220	378,419
Net LHFI and acquired loans	7,549,574	7,402,185
Premises and equipment, net	194,453	195,656
Mortgage servicing rights	68,208	74,007
Goodwill	366,156	366,156
Identifiable intangible assets	25,751	27,546
Other real estate, excluding covered other real estate	71,806	77,177
Covered other real estate	496	1,651
FDIC indemnification asset	506	738
Other assets	542,397	562,350
<b>Total Assets</b>	<b>\$12,775,196</b>	<b>\$12,678,896</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$2,874,306	\$2,998,694
Interest-bearing	6,759,337	6,589,536
Total deposits	9,633,643	9,588,230
Federal funds purchased and securities sold under repurchase agreements	466,436	441,042
Short-term borrowings	411,385	412,617

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Long-term FHLB advances	501,124	501,155
Subordinated notes	49,977	49,969
Junior subordinated debt securities	61,856	61,856
Other liabilities	142,519	150,970
<b>Total Liabilities</b>	<b>11,266,940</b>	<b>11,205,839</b>
<b>Shareholders' Equity</b>		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,639,832 shares - 2016; 67,559,128 shares - 2015	14,093	14,076
Capital surplus	363,979	361,467
Retained earnings	1,151,757	1,142,908
Accumulated other comprehensive loss, net of tax	(21,573 )	(45,394 )
<b>Total Shareholders' Equity</b>	<b>1,508,256</b>	<b>1,473,057</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$12,775,196</b>	<b>\$12,678,896</b>

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Income

(\$ in thousands except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
<b>Interest Income</b>		
Interest and fees on LHFS & LHFI	\$72,286	\$66,211
Interest and fees on acquired loans	7,022	15,078
Interest on securities:		
Taxable	20,086	19,586
Tax exempt	973	1,163
Interest on federal funds sold and securities purchased under reverse repurchase agreements	1	—
Other interest income	230	393
<b>Total Interest Income</b>	<b>100,598</b>	<b>102,431</b>
<b>Interest Expense</b>		
Interest on deposits	3,038	3,247
Interest on federal funds purchased and securities sold under repurchase agreements	431	143
Other interest expense	2,389	1,649
<b>Total Interest Expense</b>	<b>5,858</b>	<b>5,039</b>
<b>Net Interest Income</b>	<b>94,740</b>	<b>97,392</b>
Provision for loan losses, LHFI	2,243	1,785
Provision for loan losses, acquired loans	1,309	347
<b>Net Interest Income After Provision for Loan Losses</b>	<b>91,188</b>	<b>95,260</b>
<b>Noninterest Income</b>		
Service charges on deposit accounts	11,081	11,085
Bank card and other fees	6,918	6,762
Mortgage banking, net	8,699	8,965
Insurance commissions	8,593	8,616
Wealth management	7,407	7,990
Other, net	888	(1,055 )
Security losses, net	(310 )	—
<b>Total Noninterest Income</b>	<b>43,276</b>	<b>42,363</b>
<b>Noninterest Expense</b>		
Salaries and employee benefits	57,201	57,169
Services and fees	14,475	14,121
Net occupancy - premises	6,188	6,191
Equipment expense	6,094	5,974

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ORE/Foreclosure expense	181	1,115
FDIC assessment expense	2,811	2,940
Other expense	11,994	11,706
Total Noninterest Expense	98,944	99,216
Income Before Income Taxes	35,520	38,407
Income taxes	8,517	9,259
Net Income	\$27,003	\$29,148
Earnings Per Share		
Basic	\$0.40	\$0.43
Diluted	\$0.40	\$0.43
Dividends Per Share		
	\$0.23	\$0.23

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Comprehensive Income

(\$ in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income per consolidated statements of income	\$27,003	\$29,148
Other comprehensive income, net of tax:		
Unrealized gains on available for sale securities and transferred securities:		
Unrealized holding gains arising during the period	21,825	11,386
Less: adjustment for net losses realized in net income	191	—
Change in net unrealized holding loss on securities transferred to held to maturity	1,682	874
Pension and other postretirement benefit plans:		
Net change in prior service costs	38	39
Recognized net loss due to lump sum settlement	261	257
Change in net actuarial loss	545	754
Derivatives:		
Change in the accumulated loss on effective cash flow hedge derivatives	(820 )	(608 )
Less: adjustment for loss realized in net income	99	130
Other comprehensive income, net of tax	23,821	12,832
Comprehensive income	\$50,824	\$41,980

See notes to consolidated financial statements.



Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

(\$ in thousands)

(Unaudited)

	2016	2015
Balance, January 1,	\$1,473,057	\$1,419,940
Net income per consolidated statements of income	27,003	29,148
Other comprehensive income, net of tax	23,821	12,832
Common stock dividends paid	(15,640 )	(15,639 )
Common stock issued-net, long-term incentive plan	(799 )	(830 )
Excess tax expense from stock-based compensation arrangements	(147 )	(218 )
Compensation expense, long-term incentive plan	961	851
Balance, March 31,	\$1,508,256	\$1,446,084

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(\$ in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
<b>Operating Activities</b>		
Net income per consolidated statements of income	\$27,003	\$29,148
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses, net	3,552	2,132
Depreciation and amortization	8,721	9,080
Net amortization of securities	2,087	2,050
Securities losses, net	310	—
Gains on sales of loans, net	(2,591 )	(3,713 )
Deferred income tax provision	125	4,625
Proceeds from sales of loans held for sale	238,007	236,732
Purchases and originations of loans held for sale	(267,422)	(275,587)
Originations of mortgage servicing rights	(3,072 )	(3,126 )
Increase in bank-owned life insurance	(1,226 )	(1,179 )
Net (increase) decrease in other assets	(3,511 )	2,275
Net decrease in other liabilities	(7,185 )	(9,839 )
Other operating activities, net	7,078	4,554
Net cash provided by (used in) operating activities	1,876	(2,848 )
<b>Investing Activities</b>		
Proceeds from calls and maturities of securities held to maturity	72,168	24,372
Proceeds from calls and maturities of securities available for sale	99,722	91,776
Proceeds from sales of securities available for sale	24,693	—
Purchases of securities held to maturity	(50,031 )	(6,738 )
Purchases of securities available for sale	(113,654)	(112,367)
Net proceeds from bank-owned life insurance	604	—
Net decrease in federal funds sold and securities purchased under reverse repurchase agreements	250	1,885
Net decrease in member bank stock	8,280	14,100
Net (increase) decrease in loans	(153,989)	78,479
Purchases of premises and equipment	(2,814 )	(2,790 )
Proceeds from sales of premises and equipment	—	1,300
Proceeds from sales of other real estate	10,328	10,632
Purchases of software	(1,565 )	—
Investments in tax credit and other partnerships	(46 )	(38 )
Net cash (used in) provided by investing activities	(106,054)	100,611

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Financing Activities

Net increase in deposits	45,413	208,632
Net increase in federal funds purchased and securities sold under repurchase agreements	25,394	79,644
Net decrease in short-term borrowings	(65 )	(350,051)
Payments on long-term FHLB advances	(30 )	(30 )
Common stock dividends	(15,640 )	(15,639 )
Common stock issued-net, long-term incentive plan	—	(830 )
Excess tax expense from stock-based compensation arrangements	(147 )	(218 )
Net cash provided by (used in) financing activities	54,925	(78,492 )
(Decrease) Increase in cash and cash equivalents	(49,253 )	19,271
Cash and cash equivalents at beginning of period	277,751	315,973
Cash and cash equivalents at end of period	\$228,498	\$335,244

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 – Business, Basis of Financial Statement Presentation and Principles of Consolidation

Trustmark Corporation (Trustmark) is a bank holding company headquartered in Jackson, Mississippi. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions to corporate institutions and individual customers through 200 offices in Alabama, Florida, Mississippi, Tennessee and Texas.

The consolidated financial statements include the accounts of Trustmark and all other entities in which Trustmark has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2015 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. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting periods and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2016 actual conditions could vary from those anticipated, which could affect Trustmark's financial condition and results of operations. Actual results could differ from those estimates.

## Note 2 – Securities Available for Sale and Held to Maturity

The following tables are a summary of the amortized cost and estimated fair value of securities available for sale and held to maturity at March 31, 2016 and December 31, 2015 (\$ in thousands):

	Securities Available for Sale				Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2016								
U.S. Government agency obligations Issued by U.S. Government agencies	\$63,787	\$522	\$(495)	\$63,814	\$—	\$—	\$—	\$—
U.S. Government sponsored agencies	258	28	—	286	63,085	3,437	—	66,522
Obligations of states and political subdivisions	131,464	4,197	(6)	135,655	54,278	3,116	—	57,394
Mortgage-backed securities Residential mortgage pass-through securities								
Guaranteed by GNMA	24,582	521	(22)	25,081	16,590	533	—	17,123
Issued by FNMA and FHLMC	324,841	5,719	(2)	330,558	9,871	502	—	10,373
Other residential mortgage-backed securities Issued or guaranteed by FNMA, FHLMC or GNMA	1,515,862	26,501	(1,822)	1,540,541	818,201	17,752	(116)	835,837

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Commercial mortgage-backed securities								
Issued or guaranteed by FNMA,								
FHLMC or GNMA	265,813	6,446	(74 )	272,185	206,178	5,927	(141 )	211,964
Total	\$2,326,607	\$43,934	\$(2,421 )	\$2,368,120	\$1,168,203	\$31,267	\$(257 )	\$1,199,213

December 31, 2015

U.S. Government agency obligations								
Issued by U.S. Government agencies	\$68,314	\$555	\$(734 )	\$68,135	\$—	\$—	\$—	\$—
Issued by U.S. Government sponsored agencies	258	23	—	281	101,782	3,282	—	105,064
Obligations of states and political subdivisions	134,719	3,922	(32 )	138,609	55,892	2,918	—	58,810
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	25,602	399	(189 )	25,812	17,363	342	(49 )	17,656
Issued by FNMA and FHLMC	222,899	2,956	(313 )	225,542	10,368	311	—	10,679
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA,								
FHLMC or GNMA	1,584,338	9,541	(11,019 )	1,582,860	820,012	4,951	(4,742 )	820,221
Commercial mortgage-backed securities	278,429	2,689	(1,892 )	279,226	182,401	1,700	(1,164 )	182,937

Issued or  
guaranteed by  
FNMA,

FHLMC or  
GNMA

Asset-backed  
securities and  
structured

financial products	25,003	79	(125 )	24,957	—	—	—	—
<b>Total</b>	<b>\$2,339,562</b>	<b>\$ 20,164</b>	<b>\$(14,304 )</b>	<b>\$2,345,422</b>	<b>\$1,187,818</b>	<b>\$ 13,504</b>	<b>\$(5,955 )</b>	<b>\$1,195,367</b>

During 2013, Trustmark reclassified approximately \$1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities totaled approximately \$46.6 million (\$28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. At March 31, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately \$31.3 million (\$19.3 million, net of tax).

#### Temporarily Impaired Securities

The tables below include securities with gross unrealized losses segregated by length of impairment at March 31, 2016 and December 31, 2015 (\$ in thousands):

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
March 31, 2016						
U.S. Government agency obligations						
Issued by U.S. Government agencies	\$17,160	\$ (100 )	\$25,951	\$ (395 )	\$43,111	\$ (495 )
Obligations of states and political subdivisions	2,391	(3 )	975	(3 )	3,366	(6 )
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	3,000	(9 )	1,745	(13 )	4,745	(22 )
Issued by FNMA and FHLMC	—	—	1,054	(2 )	1,054	(2 )
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	47,252	(133 )	213,510	(1,805 )	260,762	(1,938 )
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	9,647	(56 )	21,082	(159 )	30,729	(215 )
Total	\$79,450	\$ (301 )	\$264,317	\$ (2,377 )	\$343,767	\$ (2,678 )

December 31, 2015