TRUSTMARK CORP
Form 10-K/A
July 02, 2009

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

FORM 10-K/A
(Amendment No. 1)

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2008
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 (State or other jurisdiction of incorporation or organization)	64-0471500 (IRS Employer Identification Number)
248 East Capitol Street, Jackson, Mississippi (Address of principal executive offices)	39201 (Zip Code)
Registrant's telephone number, including area code:	(601) 208-5111

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

Common Stock, no par value (Title of Class)	NASDAQ Global Select Market (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 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. T

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 £ (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 Act.)Yes £ No T

Based on the closing sales price at June 30, 2008, 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 $864 million.

As of January 31, 2009, there were issued and outstanding 57,324,737 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Trustmark's 2009 Annual Meeting of Shareholders held on May 12, 2009, contained in the Definitive Revised Schedule 14A (Amendment No. 1) filed with the Securities and Exchange Commission on May 1, 2009, are incorporated by reference to Part III of the Form 10-K/A report.

EXPLANATORY NOTE

The registrant filed an Annual Report on Form 10-K for the year ended December 31, 2008 (the "Form 10-K") on February 26, 2009. The registrant is amending the Form 10-K with this Annual Report on Form 10-K/A (Amendment No. 1) (this "Form 10-K/A"). This Form 10-K/A does not include Items 1B, 2, 3, 4, 5, 6, 7A, 8, 9, 9A and 9B. Items 1B, 2, 3, 4, 5, 6, 7A, 8, 9, 9A and 9B have not been changed and can be found in the Form 10-K.

TRUSTMARK CORPORATION

ANNUAL REPORT ON FORM 10-K/A
(Amendment No. 1)

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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. TNB represents in excess of 98% of the assets and revenue 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 2,600 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:

Commercial Banking – TNB provides a full range of commercial banking services to corporations and other business clients. 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 clients 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, 2008, TNB's mortgage loan portfolio totaled approximately $900 million, while its portfolio of mortgage loans serviced for others, including, FNMA, FHLMC and GNMA, totaled approximately $5.0 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 clients. 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, insurance, financial and estate planning and retirement plan services. TNB's wealth management division is also served by Trustmark Investment Advisors, Inc. (TIA), an SEC-registered investment adviser. TIA provides customized investment management services for TNB clients and also serves as investment advisor to The Performance Funds, a proprietary family of mutual funds. At December 31, 2008, assets under management and administration totaled $6.8 billion.

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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 clients are also provided life and health insurance, and personal line policies. TNB provides these services through The Bottrell Insurance Agency, Inc. (Bottrell), one of the largest agencies in Mississippi, which is based in Jackson, and Fisher-Brown, Incorporated (Fisher-Brown), a leading insurance agency in Northwest Florida.

The following charts show TNB's percentage of total loans and total revenue for each of the geographic regions in which it operates:

Loans (including loans held for sale) by Geographic Location
($ in thousands)

	December 31, 2008		
	Amount	%	
Mississippi (1)	$4,910,805	70.5	%
Tennessee (2)	592,152	8.5	%
Florida	618,312	8.9	%
Texas	839,399	12.1	%
Total Loans	$6,960,668	100.0	%

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

Total Revenue by Geographic Location
($ in thousands)

	December 31, 2008		
Total Revenue (1)	Amount	%	
Mississippi (2)	$395,359	79.6	%
Tennessee (3)	38,939	7.8	%
Florida	31,521	6.4	%
Texas	30,599	6.2	%
Total Revenue	$496,418	100.0	%

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

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For the fiscal year ended December 31, 2008, Trustmark operated through four operating segments -- General Banking, Insurance, Wealth Management and Administration. (See Note 19 to the accompanying audited financial statements). The table below presents segment data regarding net income (expense) from external customers, noninterest income (loss), net income (loss) and average assets for each segment for the last three fiscal years.

Segment Data
($ in thousands)

	Years ended December 31,		
	2008	2007	2006
General Banking			
Net interest income from external customers	$283,623	$294,373	$278,083
Noninterest income	111,462	101,173	94,876
Net income	55,724	104,092	115,847
Average assets	7,481,713	7,373,472	6,801,864
Insurance			
Net interest expense from external customers	$-	$(3)	$(8)
Noninterest income	32,544	35,574	34,279
Net income	5,377	6,908	6,663
Average assets	20,489	21,670	25,065
Wealth Management			
Net interest income from external customers	$5,017	$4,947	$4,552
Noninterest income	28,573	26,433	23,696
Net income	7,569	6,850	5,648
Average assets	98,240	90,533	88,695
Administration			
Net interest income (expense) from external customers	$30,520	$1,466	$(2,056)
Noninterest income (loss)	4,679	(733)	2,277
Net income (loss)	23,747	(9,255)	(8,885)
Average assets	1,530,745	1,360,162	1,511,864

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 clients. 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 results of operations has been derived from organic growth of existing lines of business in Trustmark's primary geographic markets, supplemented by opportunistic acquisitions that have expanded Trustmark's operations.

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. In addition, in 2004 Trustmark acquired five branches of Allied Houston Bank, which marked Trustmark's entry into the Houston banking market. Also in 2004, Trustmark acquired Fisher-Brown, Incorporated (northwest Florida's leading insurance agency), located in Pensacola, Florida. This acquisition strengthened Trustmark's existing insurance business and also supplemented its other business operations in that part of the state.

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The following table sets forth summary data regarding Trustmark's asset, revenue and equity growth over the past five fiscal years:

Summary Data
($ in thousands except for percentage data)

Years Ended December 31,	2008	2007	2006	2005	2004
Total Revenue					
Total revenue	$496,418	$463,230	$435,699	$419,548	$399,645
Total revenue growth	$33,188	$27,531	$16,151	$19,903	$(6,495)
Total revenue growth	7.16 %	6.32 %	3.85 %	4.98 %	-1.60 %
At December 31,					
Total Assets					
Total assets	$9,790,909	$8,966,802	$8,840,970	$8,389,750	$8,052,957
Total asset growth	$824,107	$125,832	$451,220	$336,793	$138,636
Total asset growth	9.19 %	1.42 %	5.38 %	4.18 %	1.75 %
Total Equity					
Total equity	$1,178,466	$919,636	$891,335	$741,463	$750,396
Total equity growth	$258,830	$28,301	$149,872	$(8,933)	$60,823
Total equity growth	28.14 %	3.18 %	20.21 %	-1.19 %	8.82 %

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.

The Current Economic Recession

Like many other financial institutions, Trustmark's results for the year ended December 31, 2008 were affected by the national economic recession. Loans, including loans held for sale, at December 31, 2008 totaled $6.961 billion and reflected a decrease of $227.6 million, or 3.17%, from loans reported at December 31, 2007. Particularly in the third and fourth quarters of 2008, the demand in the markets that TNB serves for high quality loans that meet its prudent lending standards decreased substantially. One potential exception to this trend is the mortgage lending market, where demand began to increase in December 2008 due to the fall in interest rates. This trend, as it relates to mortgage lending, continued in the first quarter of 2009.

Trustmark increased its allowance for loan losses to $94.9 million at December 31, 2008, reflecting an increase of $15.1 million, or 18.9%, when compared to December 31, 2007. Similarly, Trustmark's nonaccrual loans increased by $48.9 million, to $114.0 million, during 2008, and total nonperforming assets increased to $152.6 million at December 31, 2008, from $73.5 million at December 31, 2007. These changes were largely caused by the increase in total nonaccrual loans and other real estate in Trustmark's Florida market.

Trustmark experienced an increase in defaults and foreclosures in fiscal 2008, primarily in its residential real estate loan portfolio in Florida. In other markets in which Trustmark operates, increases in the levels of defaults and foreclosures have been much less pronounced. This is due, in part, to the fact that Trustmark's markets in Tennessee, Mississippi and Texas did not experience as dramatic a rise in real estate values over the last several years as was the case in Florida.

To address the downturn in the Florida real estate market, TNB has established a dedicated problem asset working group. This group is composed of experienced lenders and is charged with managing problem assets in the Florida market. In addition, a special committee of management has been formed to provide guidance and to monitor progress in the effort to resolve problem assets in Florida. Aside from these new monitoring and management processes, Trustmark conducts quarterly reviews and evaluations of all criticized loans in all markets, including Florida. These comprehensive reviews, which long pre-date the current economic recession, include the formulation of action plans and updates on recent developments on all criticized loans. Proactive management of problem loans is a high priority with Trustmark's senior management.

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In addition, Trustmark has 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 have been added to accommodate loss mitigation activity. Trustmark has utilized personnel in its collections department and has conducted regular training of its personnel on foreclosure mitigation in order to respond to this need. In some cases, Trustmark may make special payment arrangements with such borrowers. 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 mostly occurred on loans serviced for outside investors. Thus far, there has been comparatively less need for, or use of, available loan modification programs on the primary residence mortgage portfolio that TNB owns. 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, TNB is preparing for a potential increase in demand for loan modifications on internal loans covering primary residences and intends to carry out specific programs as needed. 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, 2008 of $6.824 billion were effectively unchanged from $6.869 billion at December 31, 2007. Modest declines in interest-bearing demand deposits and time deposits, which were largely attributable to increased competition from certain competitors that offered above-market rates to address liquidity issues, slightly exceeded increases in noninterest-bearing demand deposits and savings accounts, which were predominantly attributable to a general increase in the savings rate in response to the economic crisis and the resulting widespread uncertainty.

The current economic recession has also affected Trustmark's operations. During the fourth quarter of 2008, Trustmark participated in two government programs, which had the effect of enabling it to enhance liquidity and to augment its strong capital position. First was the Troubled Asset Relief Program (TARP)-Capital Purchase Program (CPP) sponsored by the Treasury Department. In November 2008, Trustmark received $215.0 million under the TARP CPP program in exchange for issuing 215,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock and a warrant (Warrant) to purchase approximately 1.648 million shares of Trustmark common stock. The second program was the Term Auction Facility (TAF) sponsored by the Federal Reserve Bank of New York. To take advantage of attractively priced funding, Trustmark bid on and received $200.0 million in TAF funding under the TAF facility in December 2008. This funding is collateralized by assets pledged to the Discount Window at the Federal Reserve Bank of Atlanta. Trustmark does not typically utilize the primary borrowing facility at the Discount Window, so the TAF program allowed Trustmark to borrow $200.0 million at attractive rates using some of the collateral normally pledged for contingency funding in lieu of utilizing its more traditional funding sources for these borrowings. Trustmark's collateral value at the Discount Window at December 31, 2008 was $924.3 million before deducting its TAF borrowings.

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.

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Subsidiaries of Trustmark

Trustmark National Bank

Trustmark National Bank initially chartered by the state of Mississippi in 1889, is headquartered in Jackson, Mississippi. TNB represents over 98% of the assets and revenues of Trustmark. Significant services offered by TNB include commercial banking, consumer banking, mortgage banking, wealth management and trust services, and risk management services. TNB also provides investment and insurances services through the following wholly-owned subsidiaries:

Trustmark Investment Advisors, Inc. (TIA) is a registered investment adviser. TIA provides customized investment management services for the clients of TNB and also serves as investment advisor to The Performance Funds, a proprietary family of mutual funds.

The Bottrell Insurance Agency, Inc. (Bottrell), which is based in Jackson, is among the largest agencies in Mississippi. Bottrell provides comprehensive insurance and risk management solutions to businesses and individuals.

TRMK Risk Management, Inc. (TRMI) engages in individual insurance product sales as a broker of life and long term care insurance.

Fisher-Brown, Incorporated (Fisher-Brown), a leading insurance agency in Northwest Florida, provides a comprehensive range of insurance products to businesses, families and individuals.

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.

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 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.

Segment Information

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.

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.

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Some of the institutions which compete with Trustmark are among the largest financial institutions in the United States. Any actual intervention or assistance to these competitors made by the United States government, as well as the perception that such assistance would be forthcoming if needed, can have the effect of eroding Trustmark's competitive advantages in its markets.

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.

The table below presents FDIC deposit data regarding TNB's deposit market share. The June 30, 2008 data set forth below is the most current data available from the FDIC at this time.

TNB Deposit Market Share by State
($ in thousands)

	June 30, 2008		
Market (1)	Deposits	Deposit Market Share	
Mississippi	$5,754,006	12.66	%
Texas	603,671	0.12	%
Tennessee	312,429	0.30	%
Florida	242,964	0.06	%

(1) - Note that market is defined by state.
Source: FDIC

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 are among the leading agencies in the markets of Mississippi and northwest Florida. These subsidiaries face competition from local, regional and national insurance companies, 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 trust 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.

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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.

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 which 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. The Federal Reserve Board supervises Trustmark’s nonbanking subsidiaries.

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Trustmark is also under the jurisdiction of the SEC for matters relating to the offering and sale 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

A major focus of governmental policy on financial institutions in recent years has been 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 United States Treasury Department 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.

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. Market risk capital (Tier 3) includes qualifying unsecured subordinated debt. Total capital for both Trustmark and TNB is a combination of Tier 1 and Tier 2 capital.

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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, 2008, Trustmark exceeded both requirements with Tier 1 capital and total capital equal to 13.01% and 14.95% of its total risk-weighted assets, respectively. At December 31, 2008, TNB also exceeded both requirements with Tier 1 capital and total capital equal to 12.63% and 14.52% of its total risk-weighted assets, respectively. Somerville is not discussed in this section, as it is not a significant subsidiary as defined by the SEC.

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, 2008, the leverage ratios for Trustmark and TNB were 10.42% and 10.13%, 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, 2008, the most recent notification from the OCC categorized TNB as well capitalized based on the ratios and guidelines described above.

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. Trustmark is not required to comply with Basel II at this time due to its asset size and lack of on-balance sheet foreign exposure.

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Troubled Assets Relief Program - Capital Purchase Program

On November 21, 2008, Trustmark issued a total of 215,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (no par) liquidation preference $1,000 per share, (Senior Preferred) to the United States Department of the Treasury (Treasury) in a private placement transaction as part of the Troubled Assets Relief Program - Capital Purchase Program (TARP CPP). In the same transaction, Trustmark also issued to the Treasury a warrant to purchase approximately 1.648 million shares of Trustmark's common stock at an exercise price of $19.57 per share.

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 U.S. Treasury. Trustmark elected to participate in the TARP CPP as a healthy, well-capitalized bank.

Under the securities purchase agreement (SPA), Trustmark may not redeem the Senior Preferred prior to February 15, 2012, unless the Senior Preferred is redeemed with the proceeds of an offering of perpetual preferred stock or common stock that (1) qualifies as Tier 1 Capital for bank regulatory purposes and (2) results in gross proceeds to Trustmark of not less than $53.8 million. Any redemption of the Senior Preferred will be at $1,000 per share plus any accrued and unpaid dividends and shall be subject to the approval of Trustmark's primary federal banking regulator, the Board of Governors of the Federal Reserve System.

The American Recovery and Reinvestment Act of 2009 (2009 Stimulus Package) was signed into law on February 17, 2009, by President Obama. The 2009 Stimulus Package imposes certain executive compensation and corporate expenditure limits on all current and future Troubled Assets Relief Program recipients, including Trustmark, until the institution has repaid the Treasury, which is now permitted under the 2009 Stimulus Package without penalty and without the need to raise new capital, subject to the Treasury's consultation with the recipient's appropriate regulatory agency.

Due to Trustmark's participation in the Treasury's Capital Purchase Program, Trustmark must receive the consent of the Treasury in order to redeem, purchase or acquire any shares of its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the SPA for the Senior Preferred (a copy of which is incorporated by reference as an exhibit to this Annual Report on Form 10-K), unless Trustmark has redeemed the Senior Preferred or the Treasury has transferred all of its shares of the Senior Preferred to a third party.

Another standard included in the Treasury's Capital Purchase Program applies to dividends. Prior to November 21, 2011, the consent of Treasury will be required for Trustmark to declare or pay any dividend or make any distribution on its common stock (other than regular quarterly cash dividends of not more than $0.23 per share of common stock) unless Trustmark has redeemed the Senior Preferred stock or the Treasury has transferred all of its shares of the Senior Preferred to a third party. The SPA also contains restrictions and requirements with respect to executive compensation and corporate governance. Furthermore, for so long as the Treasury holds Trustmark's Senior Preferred stock, Trustmark is subject to the regulations and restrictions with respect to executive compensation and corporate governance established by Congress in the 2009 Stimulus Package which apply to institutions that received Capital Purchase Program funds, as well as the rules and regulations adopted by the Treasury and the Securities and Exchange Commission (SEC) thereunder.

Payment of Dividends and Other Restrictions

There are various legal and regulatory provisions which 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 2009 approximately $44.5 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. As described above under the heading “Troubled Assets Relief Program,” Trustmark is subject to certain restrictions on payment of dividends on its common stock, other than regular, quarterly cash dividends of not more than $0.23 per share, for so long as the Treasury holds any of the Senior Preferred stock.

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FDIC Insurance Assessments

The deposits of TNB are insured up to regulatory limits set by the Deposit Insurance Fund (DIF) and, accordingly, are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes 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 (CAMELS). Beginning in 2007, the previous nine risk categories utilized in the risk matrix were condensed into four risk categories which continue to be distinguished by capital levels and supervisory ratings. For Risk Category 1 institutions (generally those institutions with less than $10 billion in assets) including TNB, assessment rates are determined from a combination of financial ratios and CAMELS component ratings. The minimum annualized assessment rate for Risk Category 1 institutions during 2008 was 5 basis points per $100 of deposits with the maximum rate being 7 basis points. Quarterly assessment rates for institutions in Risk Category 1 may vary within this range depending upon changes in CAMELS component ratings and financial ratios.

During 2008, Trustmark's expenses related to deposit insurance premiums totaled $2.7 million as it completed its utilization of the one-time assessment credit of $5.6 million it received during 2007. In addition, TNB also paid $769 thousand in Financing Corporation (FICO) assessments related to outstanding FICO bonds in which the FDIC serves as collection agent. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2008, the FICO assessment was equal to 1.14 basis points per $100 of deposits.

During the fourth quarter of 2008, in response to deterioration in banking and economic conditions, the FDIC announced several changes designed to contribute to the economic stabilization. First, on October 3rd, President Bush signed the Emergency Economic Stabilization Act of 2008, which temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. On May 20, 2009 President Obama signed the Helping Families Save Their Homes Act of 2009 which extended the federal deposit insurance coverage of $250,000 per depositor till December 31, 2013. On January 1, 2014, the standard insurance amount will return to $100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at $250,000 per depositor. On October 14th, the FDIC announced the Temporary Liquidity Guarantee Program (TLGP) which was designed to strengthen confidence and encourage liquidity in the banking system. The Debt Guarantee Program guarantees, with certain limitations, newly issued senior unsecured debt with a term greater than 30 days of eligible, participating entities. The Transaction Account Guarantee Program fully guarantees noninterest-bearing transaction accounts and NOW accounts with interest rates of 50 basis points or less. Trustmark and its banking subsidiaries have opted to participate in both programs but will incur no additional assessment for the Debt Guarantee Program since it currently has no qualifying debt outstanding. Participants in the Transaction Account Guarantee Program will incur a surcharge of $0.10 per $100 of covered deposits exceeding $250,000.

Additionally, during October the FDIC voted to adopt a restoration plan accompanied by a notice of proposed rulemaking that would increase the rates banks pay for deposit insurance, while at the same time making adjustments to the system that determines what rate a bank pays the FDIC. Currently, banks pay anywhere from five basis points to 43 basis points per $100 of assessable deposits for deposit insurance. Under the restoration plan, the assessment rate schedule would be raised uniformly by 7 basis points (annualized) beginning on January 1, 2009. Beginning with the second quarter of 2009, changes would be made to the deposit insurance assessment system to make the increase in assessments fairer by requiring riskier institutions to pay a larger share. Together, the proposed changes would improve the way the system differentiates risk among insured institutions and help ensure that the reserve ratio returns to at least 1.15% by the end of 2013.

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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, 2008, Trustmark employed 2,607 full-time equivalent employees. None of the Trustmark's employees are represented by collective bargaining agreements. 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, 64
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, 54
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
President and Chief Operating Officer – Consumer Division from September 2002 to February 2004

Louis E. Greer, 54
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
Senior Vice President and Controller from September 1998 to February 2004

T. Harris Collier III, 60
Trustmark Corporation
Secretary since April 2002
Trustmark National Bank
General Counsel since January 1990

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Duane A. Dewey, 50
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, 57
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
Executive Vice President and Commercial Banking Manager from September 1999 to February 2004

Glynn Ingram, 57
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., 55
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. Art Stevens, 44
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, 50
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, 64
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, 58
Trustmark National Bank
President – Jackson Metro since February 2004
President and Chief Operating Officer – Commercial Division from September 2002 to February 2004

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Chester A. (Buddy) Wood, Jr., 60
Trustmark National Bank
Executive Vice President and Chief Risk Officer from February 2007
Senior Vice President and Treasurer from January 2005 to February 2007
SouthTrust Corporation, Birmingham, Alabama
Fund Management Group EVP and Treasurer from December 2000 until December 2004

C. Scott Woods, 52
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, 2008, Trustmark's total interest income was $483.3 million and net interest income was approximately $319.2 million. Trustmark's simulation model using balances at December 31, 2008 estimated that in the event of a 100 basis point reduction in interest rates, there would be a corresponding reduction in net interest income of 3.1%. Net interest income is Trustmark's largest revenue source, and it is important to understand how Trustmark is subject to interest rate risk.

- 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.

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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 has entered into 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 regards 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 this strategy 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 for more than twelve months. Dramatic declines in the housing market over the past year, with falling home prices, unemployment and underemployment, have negatively impacted the credit performance of mortgage 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, 2008, approximately $176.7 million in aggregate principal amount of loans, or approximately 28.6% of total Florida loans of approximately $618.3 million, were classified as criticized, meaning that those loans exhibit potential credit weaknesses. Of those loans, approximately $51.1 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. Furthermore, the amount of nonaccrual loans rose by approximately 75.0% from December 31, 2007 to approximately $114.0 million at December 31, 2008. At December 31, 2008, Trustmark's total nonperforming assets (for all four states where it operates) amounted to approximately $152.6 million, an increase of approximately 107.6% over total nonperforming assets at December 31, 2007.

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.

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- 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, including as a result of the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, and its issuance to the U.S. Treasury of its Senior Preferred stock and a Warrant under the TARP CPP. 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 than 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 and borrowings from both the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB). During the fourth quarter of the 2008 fiscal year, as the U.S. financial system experienced a severe, overall contraction of credit, Trustmark was able to add to its funding sources $200.0 million in short-term borrowings from the Federal Reserve's Term Auction Facility. In addition, at December 31, 2008, Trustmark had $640 million of Federal funds purchased, or $319 million more than the amount of Federal funds purchased at December 31, 2007. The increased amount of Federal funds purchased offset, in part, a reduction in borrowings from the FHLB. 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.

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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.

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 can.

Furthermore, the Federal Reserve, in response to the current economic crisis, has conducted stress tests on the 19 largest financial institutions in the United States. Some of these institutions compete with Trustmark in some of Trustmark's markets. Any intervention or assistance to these competitors made, affected or coordinated by the Federal Reserve, the U.S. Treasury or other government agencies could affect the competitive landscape in which Trustmark operates.

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.

The Issuance of Preferred Securities and the Warrant to Purchase Trustmark Common Stock to the United States Treasury May Dilute Earnings, Encumbers Earnings to Pay Preferred Dividends and Requires Trustmark to Accrue the Related Discount through Earnings.

On November 21, 2008, Trustmark issued $215.0 million of Senior Preferred stock to the U.S. Treasury and issued the U.S. Treasury a warrant to purchase approximately 1.648 million shares of Trustmark common stock at an exercise price of $19.57 per common share. Full exercise of the warrant will dilute Trustmark's common shareholders by approximately 2.87%, based upon the approximately 57.32 million shares of Trustmark's common stock issued and outstanding as of January 31, 2009. Should the market value of the common stock increase above the exercise price of $19.57 per common share prior to exercise of the warrant, accounting rules will require additional shares to be included in the fully diluted share count, and will effectively reduce reported diluted earnings per share to common shareholders. If the warrant is exercised, dividends would become payable with respect to the newly issued shares. Likewise, in a scenario in which Management might prefer to repurchase the warrant, if the market price of the common stock is significantly above the exercise price of the warrant, the value of the warrant would rise with the market price of the common stock. In such a scenario, a higher amount of cash would be needed to repurchase the warrant, reducing capital surplus. Furthermore, a scenario involving early redemption of the Senior Preferred will require the acceleration of the associated discount through earnings available to common shareholders. If not redeemed by February 15, 2014, the annual dividend payments on the Senior Preferred will increase from 5.00% per annum to 9.00% per annum. If Trustmark is unable to redeem the Senior Preferred at or prior to February 15, 2014, then this higher dividend rate may be financially unattractive to Trustmark relative to the cost of capital under the market conditions prevailing after that date.

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In addition, Trustmark is required by accounting rules to accrete the deemed discount on the Preferred Stock through earnings available to common shareholders. The discount will accrete through February 15, 2014 at an amount of approximately $2.0 million annually, reducing earnings available to common shareholders. If the Senior Preferred is redeemed early by Trustmark, accretion of the remaining discount will be accelerated through earnings available to common shareholders at that time.

Trustmark May be Required to Pay Significantly Higher Federal Deposit Insurance Corporation (FDIC) Premiums in the Future.

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased FDIC loss provisions, resulting in a decline in the designated reserve ratio to historical lows. The FDIC expects a higher rate of insured institution failures in the next few years compared to recent years; thus, the reserve ratio may continue to decline. In addition, EESA, as amended, has increased the limit on FDIC coverage to $250,000 through December 31, 2013. These developments will cause the premiums assessed to Trustmark by the FDIC to increase. It is possible that the duration of this increase could be extended, or that the increase could become permanent, which could cause additional increases in the premiums assessed to Trustmark by the FDIC.

Based on existing regulations, the FDIC must establish and implement a restoration plan to restore the reserve ratio to 1.15 percent (based on a limit on FDIC coverage to $100,000 per account). Absent extraordinary circumstances, the reserve ratio must be restored to 1.15 percent within five years. As a result, the FDIC has adopted a restoration plan which will require an increase to the assessment rates it currently charges. Under the present regulations, Trustmark's assessment rate will increase from five to seven basis points per $100 of deposits to approximately 12 to 16 basis points per $100 of deposits beginning in 2009. In addition, under the terms of legislation presently pending, special FDIC assessment rates could be imposed in certain circumstances, 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. In 2008, Trustmark's stock reached a high of $34.00 per share on September 19, 2008 and a low of $14.31 per share on July 15, 2008. 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 and failure to integrate acquisitions or realize anticipated benefits from acquisitions. The existence of the warrant issued by Trustmark to the U.S. Treasury as described above, and the potential for dilution or actual dilution the warrant may cause, may also create additional volatility in the market price of Trustmark's common stock. General market fluctuations, industry factors and general economic and political conditions could also cause Trustmark's stock price to decrease regardless of operating results.

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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, northwest Florida's leading 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 typically 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 increases, 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.

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 previously reported, 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, the value of collateral securing loans and could cause Trustmark to incur 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.

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Part II

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 Item 1A. Risk Factors, 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 effect our consolidated financial statements, changes in consumer spending, borrowings and savings habits, technological changes, changes in the financial performance or condition of Trustmark’s borrowers, changes in Trustmark’s 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, natural disasters, acts of war or terrorism 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.

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EXECUTIVE OVERVIEW

The national economy, in 2008, faced 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 2008, 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, loans secured by 1-4 family residential properties and indirect auto loans. Throughout 2008, 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 2008, Management also monitored the trend of weakening residential real estate property values and increasing default rates, substantially all 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 much less severe.

In 2008, 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 adjusted its concentration limits of commercial real estate loans, and closely 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 2008, 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. Among such sources, Trustmark's borrowings from the Federal Reserve's TAF program and its purchase of Federal funds in 2008 reduced its funding cost relative to other interest-bearing sources. During the fourth quarter of the 2008 fiscal year, Trustmark was able to add to its funding sources $200.0 million in short-term TAF borrowings. In addition, at December 31, 2008, Trustmark had $640 million of Federal funds purchased, $319 million, or 100%, more than the amount of Federal funds purchased at December 31, 2007.

TARP CAPITAL PURCHASE PROGRAM

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 U.S. Treasury. Trustmark elected to participate in the TARP CPP as a healthy, well-capitalized bank.

As part of its participation in the TARP CPP, in addition to issuing 215,000 shares of Senior Preferred stock to the U.S. Treasury, Trustmark also issued to the U.S. 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.

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Cumulative dividends on the Senior Preferred stock will accrue on the liquidation preference at a rate of 5% per annum until February 15, 2014, and at a rate of 9% per annum thereafter, but will be paid only if, as, and when declared by Trustmark's Board of Directors. The Senior Preferred stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of Trustmark. The Senior Preferred stock is nonvoting, except in the event of a default in the payment of dividends for an aggregate of six or more quarters. The Senior Preferred stock constitutes Tier 1 capital for Trustmark.

Trustmark may redeem the Senior Preferred stock at par. Based upon recent legislation, it is not necessary for Trustmark to replace the Senior Preferred stock with Tier 1 (or other) capital as a condition to redemption. Any redemption is, however, subject to the consent of the U.S. Treasury, the Federal Reserve and the OCC.

The Senior Preferred stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. Trustmark registered the resale of the Senior Preferred stock, the Warrant, and the issuance of shares of common stock upon exercise of the Warrant (the "Warrant Shares") on December 12, 2008, in an automatic shelf registration statement filed with the U.S. Securities and Exchange Commission. Neither the Senior Preferred stock nor the Warrant are subject to any contractual restrictions on transfer, except that the U.S. Treasury may only transfer and/or exercise the Warrant with respect to an aggregate of one-half of the Warrant Shares prior to the earlier of (i) the date on which Trustmark has received aggregate gross proceeds of not less than $215.0 million from one or more Qualified Equity Offerings (as defined below) and (ii) December 31, 2009.

The Securities Purchase Agreement pursuant to which the U.S. Treasury purchased the Senior Preferred stock and the Warrant defines a "Qualified Equity Offering" as the sale and issuance for cash by Trustmark, to persons other than Trustmark or any Trustmark subsidiary, of shares of perpetual preferred stock, common stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of Trustmark at the time of issuance under the applicable risk-based capital guidelines of Trustmark's Federal banking regulator.

The Warrant has been exercisable since November 21, 2008, its date of issuance. In the event Trustmark completes one or more Qualified Equity Offerings on or prior to December 31, 2009 that result in Trustmark receiving aggregate gross proceeds of not less than $215.0 million, the number of the shares of common stock underlying the portion of the Warrant then held by the U.S. Treasury will be reduced by a number of shares equal to the product of (i) the number of shares of common stock initially covered by the Warrant (taking into account any adjustments pursuant to the terms of the Warrant), and (ii) 0.5.

Copies of the Securities Purchase Agreement, the Warrant, the Certificate of Designations for the Senior Preferred stock and the form of Senior Preferred stock certificate are included as exhibits to this report. The foregoing summary of these documents is qualified in its entirety by reference thereto.

Use of Capital

The TARP CPP funds have not been segregated from Trustmark's other funds, and thus those funds cannot be directly traced through Trustmark's balance sheet.

Based on analysis of the market conditions at the time of issuance, Trustmark determined that the proceeds of the U.S. 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 million of the proceeds to provide for the 2009 dividend payments on the Senior Preferred stock and invested the remaining $205 million in TNB. In turn, TNB invested the $205 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.

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Trustmark is committed to making credit available to the markets it serves and fulfilling the needs of its customers. 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 clients. 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 into the first fiscal quarter of 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 have not been segregated, and this increased lending is not directly traceable in a dollar-for-dollar manner to the TARP CPP, the strengthening of Trustmark’s balance sheet by the TARP CPP investment has directly facilitated increased lending activity.

In addition, Trustmark has 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 have been added to accommodate loss mitigation activity. Trustmark has utilized personnel in its collections department and has conducted regular training of its personnel on foreclosure mitigation in order to respond to this need. In some cases, Trustmark may make special payment arrangements with such borrowers. 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 mostly occurred on loans serviced for outside investors. To date, there have been comparatively less need for, or use of, available 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 preparing for a potential increase in demand for loan modification on internal loans covering primary residences, and intends to carry out specific programs as needed. 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.

Effects of TARP CPP Participation

Pursuant to the terms of the Securities Purchase Agreement, Trustmark registered for resale the Senior Preferred stock, the Warrant to purchase 1,647,931 shares of its common stock and the shares of common stock underlying the Warrant, in an automatic shelf registration statement filed with the Securities and Exchange Commission on December 12, 2008. Pursuant to the terms of the Securities Purchase Agreement, prior to November 21, 2011, unless Trustmark has redeemed the Senior Preferred stock or the U.S. Treasury has transferred the Senior Preferred stock to a third party, Trustmark may not, without the consent of the U.S. Treasury, (i) declare or pay any dividend or make any distribution on its common stock (other than regular quarterly cash dividends of not more than $0.23 per share of common stock) or (ii) redeem, purchase or acquire any shares of its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other limited circumstances specified in the Securities Purchase Agreement.

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The Warrant is immediately exercisable, and if exercised, Trustmark's common shareholders, would be diluted by the issuance of up to 1,647,931 additional shares of common stock.

The Certificate of Designations of the Senior Preferred provides that, in the event Trustmark defaults on the payment of dividends due on the Senior Preferred for an aggregate of six quarters or more, the Board of Directors of Trustmark shall be automatically increased by two positions, and the holders of the Senior Preferred shall have the right to elect two directors to fill those positions. There was no need for Trustmark to amend its bylaws to increase the maximum size of the board of directors in order to be able to accommodate an election of those two directors. However, Trustmark's bylaws were amended, effective November 21, 2008, to permit the expansion of the board of directors under such circumstances by means of an automatic process, consistent with the provisions of the Certificate of Designations of the Senior Preferred. Trustmark did not have any other senior class of securities outstanding at the time it entered into the Securities Purchase Agreement.

With respect to Trustmark's day-to-day operations, participation in the TARP CPP has heightened the focus on originating new loans that meet TNB's prudent lending standards. In addition, Trustmark is following the Fannie Mae, Freddie Mac and GNMA guidelines for foreclosure moratoriums in TNB's portfolio of loans serviced for others.

Participation in the TARP CPP strengthened Trustmark's capital ratios. For example, at September 30, 2008 (prior to the TARP CPP transaction), TNB's ratios of Total Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets and Tier 1 Capital to Average Assets were 11.50%, 9.61% and 7.93%, respectively, and at December 31, 2008 (following the November 21, 2008 TARP CPP transaction) TNB's ratios of Total Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets and Tier 1 Capital to Average Assets were 14.52%, 12.63% and 10.13%, respectively. However, it should be noted that, prior to Trustmark's participation in the TARP CPP, both it and TNB were well-capitalized. At September 30, 2008, each of TNB's ratios of Total Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets and Tier 1 Capital to Average Assets exceeded the respective ratios of 10.00%, 6.00% and 5.00%, which are the minimum ratios of regulatory capital required to be well-capitalized. Furthermore, Trustmark estimates that had it not participated in the TARP CPP, its ratios of Total Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets and Tier 1 Capital to Average Assets at December 31, 2008 would have been 11.98%, 10.04% and 8.04%, respectively.

Trustmark's participation in the TARP CPP has affected the income available to common shareholders in two ways: (1) Trustmark agreed in the Securities Purchase Agreement to not pay any dividend on the common stock prior to November 21, 2011 other than regular quarterly cash dividends of not more than $0.23 per share of common stock, and (2) the dividend payments which are due on the Senior Preferred have the effect of reducing the net income otherwise available to the common stockholders. The terms of the Stock Purchase Agreement prohibit repurchases of common stock (although there was no intent, at the time of the issuance of the Preferred Stock, for Trustmark to buy back or otherwise repurchase any of its common stock).

Trustmark has complied and will continue to comply with the executive compensation and corporate governance requirements of each of (i) the Emergency Economic Stabilization Act (EESA) of 2008, (ii) the Treasury Department guidance thereunder issued on October 20, 2008, (iii) the American Recovery and Reinvestment Act of 2009 (ARRA), which was signed into law on February 17, 2009 and (iv) any subsequent legislation, regulations or guidance for so long as the Senior Preferred stock or any other security acquired under the Securities Purchase Agreement is held by the U.S. Treasury.

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On November 11, 2008, Trustmark's Board of Directors approved a resolution to adopt an omnibus amendment to all compensation plans. This amendment, which conforms all of Trustmark's benefit plans to the EESA and which applies to any senior executive officer (SEO) thereunder, includes the following:

- Clawback Provision
- Golden Parachute Limitation
- Signed Consent by all SEOs

As required by the EESA and ARRA, Trustmark will further limit the Section 162(m) tax deduction for executive compensation to $500,000 per year for any SEO for so long as the Senior Preferred stock or any other security acquired under the Securities Purchase Agreement is held by the U.S. Treasury.

An executive compensation risk assessment was performed by Trustmark's senior risk officers within 90 days of Treasury's purchase of the Senior Preferred stock and the Warrant. 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. The final Executive Compensation Risk Assessment Conclusion Memorandum was provided to this committee on February 18, 2009. A certification statement has been included within the Human Resources Committee Report of the Trustmark 2009 Proxy Statement. This risk assessment process will occur each year in which the Senior Preferred stock or any other security acquired under the Securities Purchase Agreement is held by the U.S. Treasury. In addition, the Human Resources Committee, which is composed entirely of independent directors, will discuss Trustmark's compensation arrangements in light of such a risk assessment at least semi-annually for so long as the Senior Preferred stock or any other security acquired under the Securities Purchase Agreement is held by the U.S. Treasury.

Trustmark's 2009 Proxy Statement permitted 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 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.

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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 Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan," based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with SFAS No. 5, "Accounting for 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 SFAS No. 5 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.

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 SFAS No. 114. 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 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.

General 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) changes in the value of underlying collateral; (iv) the impact on portfolio risk in a rising interest rate environment; (v) timeliness of risk ratings changes; (vi) national and regional economic trends and conditions; (vii) consumer bankruptcy trends; (viii) concentrations of commercial and consumer credits in Trustmark's loan portfolio; (ix) commercial real estate vacancy trends by region; (x) collateral, financial and underwriting exception trends by region and (xi) the impact of recent significant natural disasters or catastrophes.

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.

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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.

At the end of each quarter, 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.

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 expert, 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, 2008, MSR fair value was approximately $42.9 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 $3.2 million and $1.0 million, respectively. Changes of equal magnitude in the opposite direction would produce increases in fair value in the same respective amounts.

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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 SFAS No. 141, "Business Combinations." Trustmark's goodwill, which totaled $291.1 million at December 31, 2008, 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 $23.8 million at December 31, 2008, 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 as of October 1, 2008, 2007 and 2006, respectively, which indicated that no impairment charge was required. At December 31, 2008, Trustmark performed an additional impairment analysis due to recent changes in market conditions for the financial services industry 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).

For a description of the results of Trustmark's goodwill impairment testing for 2008, see Note 9 in Item 8 – Financial Statements and Supplementary Data.

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.

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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. Effective January 1, 2007, Trustmark's Capital Accumulation Plan (its defined benefit pension plan) was frozen to new associates. At December 31, 2008, the pension plan census totaled 3,099 associates.

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- Discount Rate. The discount rate utilized in determining the present value of the future benefit obligation is currently 6.00%. 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 2008 fiscal year the measurement date was December 31, 2008). 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 $0.80 million and $0.92 million, 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 $0.70 million.

- Recognition of Actual Asset Returns. Trustmark utilizes the provision of SFAS No. 87, 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.

- 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 SFAS No. 5, 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.

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FINANCIAL HIGHLIGHTS

Net income available for common shareholders totaled $91.1 million for the year ended December 31, 2008, compared with $108.6 million for 2007 and $119.3 million for 2006. For 2008, Trustmark's basic earnings per common share were $1.59 compared with $1.88 for 2007 and $2.11 for 2006. Diluted earnings per common share were $1.59 for 2008 compared with $1.88 for 2007 and $2.09 for 2006. At December 31, 2008, Trustmark reported gross loans, including loans held for sale, of $6.961 billion, total assets of $9.791 billion, total deposits of $6.824 billion and total shareholders' equity of $1.178 billion. Trustmark's financial performance for 2008 resulted in a return on average tangible common shareholders' equity of 14.88%, a return on common equity of 9.62% and a return on assets of 1.01%. These compared with 2007 ratios of 19.17% for return on average tangible common shareholders' equity, 12.02% for return on common equity and 1.23% for return on assets, while in 2006 the return on average tangible common shareholders' equity was 20.78%, the return on common equity was 14.89% and the return on assets was 1.42%.

Net income for 2008 was impacted by several significant items which occurred during the period. The predominant factor influencing net income during 2008 was Trustmark's provision for loan losses which totaled $76.4 million during 2008, an increase of $52.6 million when compared with 2007. This increase is primarily attributable to credit deterioration in Trustmark's Florida market where, after a decade of growth, the economy has declined as a result of the overbuilding of residential real estate. Other factors influencing net income during 2008 included an increase of $18.4 million in net interest income, an increase of $14.8 million in noninterest income and an increase of $7.3 million in noninterest expenses. The increase in noninterest income includes an after-tax gain of $3.3 million resulting from the sale of MasterCard shares as well as after-tax gain of $936 thousand resulting from the Visa initial public offering. The impact of the MasterCard and Visa transactions increased net income by $4.2 million, or $0.07 per common share. For further information regarding significant nonrecurring transactions, please see the accompanying table.

In the fiscal year ended December 31, 2008, the economic recession and the related crisis in the credit and real estate markets had a negative effect on Trustmark's business. Trustmark's 2008 provision for loan losses totaled $76.4 million, an increase of $52.6 million when compared to 2007 while, total charge-offs increased to $71.8 million during 2008, compared to $26.8 million for 2007. Total nonperforming assets were $152.6 million at December 31, 2008, an increase of $79.1 million compared to December 31, 2007. In addition, the percentage of loans which are 30 days or more past due and nonaccrual loans rose in 2008 to 3.20%, from 2.37% in 2007. These measures are predominantly attributable to economic difficulties in the Florida Panhandle market. Over the course of the past five fiscal years, as set forth in the table below, loans 30 days or more past due and nonaccruals have gradually increased in 2007 and 2008, moving upwards from the lower level that was measured for the three fiscal years ended December 31, 2006.

Percentage of Loans 30+ days past due and nonaccrual loans

12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004
3.20%	2.37%	1.35%	1.93%	1.14%

The increase in Trustmark's levels of loans past due is primarily the result of its exposure to the residential real estate market in the Florida Panhandle. The levels of loans past due in Trustmark's non-Florida markets have not experienced similar increases.

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.

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Earnings during 2007 included an accrual for expenses due to the Visa antitrust litigation and correction of an error for an under accrual of interest income for prior years related to loan fees. Collectively, these two items increased net income in 2007 by $1.1 million, or $0.02 per common share. In addition, during 2007 Trustmark also released allowance for loan losses and other reserves related to Hurricane Katrina totaling $1.0 million on a pretax basis which resulted in an increase in net income of $0.7 million, or $0.01 per common share. This is compared with an increase to net income of $5.7 million, or $0.10 per common share, resulting from Katrina adjustments during 2006.

Significant Nonrecurring Transactions

Management is presenting adjustments to net income as reported in accordance with generally accepted accounting principles resulting from significant items occurring during the periods presented. Management believes this information will help users compare Trustmark's current results to those of prior periods as presented in the accompanying table ($ in thousands):

	Years Ended December 31,					
	2008		2007		2006	
	Amount	Basic EPS	Amount	Basic EPS	Amount	Basic EPS
Net Income available to common shareholders	$ 91,064	$ 1.589	$ 108,595	$ 1.882	$ 119,273	$ 2.106
Adjustments (net of taxes):						
MasterCard Class A Common	(3,308)	(0.058)	-	-	-	-
Visa Litigation Contingency	(936)	(0.016)	494	0.009	-	-
Hurricane Katrina	-	-	(665)	(0.012)	(5,688)	(0.100)
Correction of Accounting Error	-	-	(1,623)	(0.028)	-	-
	(4,244)	(0.074)	(1,794)	(0.031)	(5,688)	(0.100)
Net Income adjusted for specific items (Non-GAAP)	$ 86,820	$ 1.515	$ 106,801	$ 1.851	$ 113,585	$ 2.006

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, 2008, Trustmark had increased its contingent obligation for the Visa litigation to $1.0 million as a result of the settlement with Discover Financial Services.

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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. Accordingly, during 2006, Trustmark released allowance for loan losses and recovered mortgage related charges specifically associated with Hurricane Katrina accruals totaling $9.2 million, resulting in an increase to Trustmark's net income of $5.7 million, or $0.10 per share. 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.

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 have reviewed this accounting error utilizing SEC SAB Nos. 99 and 108 and believe 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 Department, and the second was the TAF sponsored by the Federal Reserve Bank of New York.

To maintain its strong liquidity position, and to access a more attractive source of funding than the Federal Home Loan Bank, Trustmark bid on and received $200.0 million in TAF loans in December 2008. These borrowings are collateralized by assets pledged to the Discount Window at the Federal Reserve Bank of Atlanta. Trustmark does not typically utilize the primary borrowing facility at the Discount Window, so the TAF program allowed Trustmark to borrow $200.0 million at attractive interest rates using some of the collateral normally pledged for contingency funding. Trustmark's collateral value at the Discount Window at December 31, 2008 was $924.3 million before deducting its TAF borrowings.

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. As previously discussed, Trustmark acquired Republic Bancshares of Texas, Inc., during the third quarter of 2006. Accordingly, the results of this acquisition have been included in Trustmark's average balance sheets and results of operations since the merger date of August 25, 2006.

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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, as a result of 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. Recent securities purchases have 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 has 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.

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. Management's strategy of disciplined deposit pricing resulted in a modest 1.3% increase in interest-bearing deposits during 2008 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.

Net interest income-FTE for 2007 increased $17.1 million, or 5.9%, when compared with 2006. Trustmark has achieved a higher yielding mix of earning assets when compared to the previous year with growth in higher yielding loans being funded primarily by the maturities and calls of lower yielding investment securities. In addition, the growth in core deposits helped reduce Trustmark's utilization of higher costing wholesale funding products and provided valuable liquidity for funding earning assets when 2007 is compared with 2006. The combination of these factors resulted in a seven basis point increase in NIM to 3.91%, when 2007 is compared with 2006. During 2007, Trustmark corrected an accounting error that arose in prior periods in its consolidated statements of income resulting in a pretax benefit of $2.6 million. This error correction has been excluded from the accompanying Yield/Rate Analysis table in interest on loans for 2007. Including this error correction in 2007, Trustmark's yield on loans and earning assets was 7.35% and 7.02%, respectively, while the net interest margin was 3.94%. For additional discussion, see Market/Interest Rate Risk Management included later in Management's Discussion and Analysis.

Average interest-earning assets for 2007 were $7.878 billion, compared with $7.560 billion for 2006, an increase of $317.3 million. More importantly, the mix of average earning assets changed dramatically when comparing 2007 to 2006. During 2007, average total loans increased $596.2 million, or 9.5%, and average investment securities decreased $292.2 million, or 24.4%, compared to 2006. During 2007, Management's strategy was to reposition, in an orderly manner, the investment securities portfolio to a size and nature that supports the primary objectives of neutralizing earnings volatility from the effect of interest rate cycles while providing liquidity to fund higher yielding loans or reduce Trustmark's overall need for wholesale funding. This change in product mix resulted in an increase in interest income-FTE of $57.3 million, or 11.6%, when 2007 is compared with 2006. This impact is illustrated by the yield on total earning assets increasing from 6.52% for 2006 to 6.98% for 2007, an increase of 46 basis points.

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Average interest-bearing liabilities for 2007 totaled $6.357 billion compared with $6.072 billion for 2006, an increase of $284.3 million, or 4.7%. During 2007, a major change in the mix of interest-bearing liabilities was also experienced. This change is illustrated by an increase in average interest-bearing deposits of $471.6 million, or 9.3%, compared with a decrease of $278.6 million from wholesale funding sources such as federal funds purchased, securities sold under repurchase agreements and FHLB advances. In addition, growth in Trustmark's average noninterest-bearing deposits of $38.0 million provided liquidity while helping to replace higher-cost wholesale funding products. During 2007, Management made a concerted effort to promote funding from growth in core deposits, rather than other higher-cost funding sources, in order to improve the net interest margin and, ultimately, profitability. Growth in interest-bearing liabilities, coupled with an increase in the yield on these liabilities (48 basis points), resulted in an increase in total interest expense for 2007 of $40.2 million, or 19.9%, when compared with 2006.

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Yield/Rate Analysis Table
($ in thousands)

	Years Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Interest-earning assets:									
Federal funds sold and securities purchased under reverse repurchase agreements	$23,422	$502	2.14%	$40,850	$2,147	5.26%	$26,004	$1,327	5.10%
Securities available for sale:									
Taxable	794,443	37,257	4.69%	573,940	22,367	3.90%	846,718	31,565	3.73%
Nontaxable	38,188	2,218	5.81%	50,763	3,539	6.97%	57,720	4,028	6.98%
Securities held to maturity:									
Taxable	182,373	8,904	4.88%	195,468	9,417	4.82%	200,501	10,010	4.99%
Nontaxable	76,304	5,648	7.40%	86,030	6,404	7.44%	93,439	7,007	7.50%
Loans (including loans held for sale)	7,022,747	436,064	6.21%	6,893,402	504,043	7.31%	6,297,161	436,587	6.93%
Other earning assets	41,251	1,822	4.42%	37,133	2,116	5.70%	38,770	2,230	5.75%
Total interest-earning assets	8,178,728	492,415	6.02%	7,877,586	550,033	6.98%	7,560,313	492,754	6.52%
Cash and due from banks	245,748			287,113			327,320		
Other assets	792,835			753,503			614,779		
Allowance for loan losses	(86,124)			(72,365)			(74,924)		
Total Assets	$9,131,187			$8,845,837			$8,427,488		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$1,215,668	20,742	1.71%	$1,186,683	39,217	3.30%	$1,003,649	26,875	2.68%
Savings deposits	1,776,397	23,032	1.30%	1,708,378	38,977	2.28%	1,677,921	31,037	1.85%
Time deposits	2,598,472	96,148	3.70%	2,625,327	122,181	4.65%	2,367,263	95,928	4.05%
Federal funds purchased and securities sold	626,767	10,393	1.66%	447,438	20,224	4.52%	471,386	20,228	4.29%

under repurchase agreements									
Short-term borrowings	276,974	7,032	2.54%	269,102	13,723	5.10%	520,942	25,965	4.98%
Long-term FHLB advances	-	-	-	-	-	-	2,825	104	3.68%
Subordinated notes	49,724	2,894	5.82%	49,692	2,894	5.82%	2,586	138	5.34%
Junior subordinated debt securities	70,104	3,878	5.53%	70,104	5,144	7.34%	25,895	1,900	7.34%
Total interest-bearing liabilities	6,614,106	164,119	2.48%	6,356,724	242,360	3.81%	6,072,467	202,175	3.33%
Noninterest-bearing demand deposits	1,412,312			1,455,494			1,417,470		
Other liabilities	134,708			130,244			136,674		
Shareholders' equity	970,061			903,375			800,877		
Total Liabilities and Shareholders' Equity	$9,131,187			$8,845,837			$8,427,488		
Net Interest Margin		328,296	4.01%		307,673	3.91%		290,579	3.84%
Correction of accounting error		-			2,628			-	
Less tax equivalent adjustments:									
Investments		2,753			3,480			3,862	
Loans		6,383			6,038			6,146	
Net Interest Margin per Income Statements		$319,160			$300,783			$280,571	

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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)

	2008 Compared to 2007 Increase (Decrease) Due To:			2007 Compared to 2006 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	$(688)	$(957)	$(1,645)	$777	$43	$820
Securities available for sale:						
Taxable	9,750	5,140	14,890	(10,580)	1,382	(9,198)
Nontaxable	(790)	(531)	(1,321)	(483)	(6)	(489)
Securities held to maturity:						
Taxable	(630)	117	(513)	(251)	(342)	(593)
Nontaxable	(722)	(34)	(756)	(548)	(55)	(603)
Loans, net of unearned income	9,277	(77,256)	(67,979)	42,718	24,738	67,456
Other earning assets	217	(511)	(294)	(95)	(19)	(114)
Total interest-earning assets	16,414	(74,032)	(57,618)	31,538	25,741	57,279
Interest paid on:						
Interest-bearing demand deposits	930	(19,405)	(18,475)	5,440	6,902	12,342
Savings deposits	1,487	(17,432)	(15,945)	575	7,365	7,940
Time deposits	(1,242)	(24,791)	(26,033)	11,129	15,124	26,253
Federal funds purchased and securities sold under repurchase agreements	6,113	(15,944)	(9,831)	(1,057)	1,053	(4)
Short-term borrowings	390	(7,081)	(6,691)	(12,852)	610	(12,242)
Long-term FHLB advances	-	-	-	(104)	-	(104)
Subordinated notes	-	-	-	2,536	220	2,756
Junior subordinated debt securities	763	(2,029)	(1,266)	3,244	-	3,244
Total interest-bearing liabilities	8,441	(86,682)	(78,241)	8,911	31,274	40,185
Change in net interest income on a tax equivalent basis	$7,973	$12,650	$20,623	$22,627	$(5,533)	$17,094

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 2008 totaled $76.4 million, or 1.09% of average loans, compared with $23.8 million in 2007 and a benefit of $5.9 million in 2006.

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Provision for Loan Losses
($ in thousands)

	Years Ended December 31,		
	2008	2007	2006
Florida	$ 43,360	$ 16,463	$ (501)
Mississippi (1)	20,706	3,488	1,194
Tennessee (2)	4,707	1,837	(965)
Texas	7,639	1,996	(5,666)
Total provision for loan losses	$ 76,412	$ 23,784	$ (5,938)

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

The increase in the provision for loan losses for 2008 is primarily attributed to continued credit deterioration in the construction and land development portfolio for Trustmark's Florida Panhandle market. The provision was also impacted by commercial credit net risk-rate downgrades and increased indirect automobile financing charge-offs in the Mississippi market. Nonaccrual loans in the Florida market totaled $75.1 million in 2008 compared to $43.8 million in 2007, an increase of $31.3 million. Trustmark continues to devote significant resources to managing credit risks resulting from the slowdown in 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. In Trustmark's Mississippi market, the provision for loan losses for 2008 totaled $20.7 million compared with $3.5 million for 2007 and $1.2 million for 2006. Net charge-offs totaled $61.3 million in 2008, $16.0 million in 2007, and $4.0 million in 2006. Net charge-offs related to Katrina in all periods presented were not material. Net charge-offs represented 0.87% of average loans for 2008, compared with 0.23% in 2007 and 0.06% in 2006.

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. Total noninterest income before securities gains, net for 2008 increased $14.4 million, or 8.9%, compared to 2007, while total noninterest income before securities gains, net for 2007 increased $9.1 million, or 6.0%, compared to 2006. The increase in 2008 was primarily a result of a $14.5 million increase in net revenues from mortgage banking, net. The comparative components of noninterest income for the years ended December 31, 2008, 2007 and 2006, are shown in the accompanying table.

The single largest component of noninterest income continues to be service charges on deposit accounts, which decreased $462 thousand, or 0.9%, during 2008, compared to an increase of $1.0 million, or 1.8%, during 2007. Service charges on deposit accounts include service charges and NSF fees. Service charges increased by $343 thousand in 2008 compared to a decrease of $1.2 million in 2007. The increase in service charges during 2008 is primarily attributable to decreases in earnings credits earned by commercial customers, while the decline in 2007 was due to the migration of accounts without fees. 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 decreased by $805 thousand during 2008 compared to a $2.1 million increase during 2007. Compared to 2007, NSF revenues declined in 2008 due to a reduced number of NSF opportunities which resulted from the current economic environment. Revenues from service charges during both 2008 and 2007 were negatively impacted by the increased usage of accounts that do not charge a monthly fee and increased usage of electronic transactions.

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Noninterest Income
($ in thousands)

	2008		2007		2006	
	Amount	% Change	Amount	% Change	Amount	% Change
Service charges on deposit accounts	$ 53,717	-0.9%	$ 54,179	1.8%	$ 53,212	4.3%
Insurance commissions	32,440	-8.1%	35,286	4.2%	33,871	2.6%
Wealth management	27,600	7.2%	25,755	11.1%	23,183	7.4%
General banking-other	23,230	-6.6%	24,876	8.8%	22,867	9.8%
Mortgage banking, net	26,480	n/m	12,024	19.9%	10,030	71.6%
Other, net	13,286	30.1%	10,215	1.7%	10,043	-30.6%
Total Noninterest Income before securities gains, net	176,753	8.9%	162,335	6.0%	153,206	4.4%
Securities gains, net	505	n/m	112	n/m	1,922	n/m
Total Noninterest Income	$ 177,258	9.1%	$ 162,447	4.7%	$ 155,128	8.4%

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

Insurance commissions were $32.4 million during 2008, compared with $35.3 million in 2007 and $33.9 million in 2006. The decline in insurance commissions experienced during 2008 is primarily attributable to Fisher-Brown, Trustmark's wholly-owned insurance subsidiary located in the Florida Panhandle, which has been impacted by a decline in revenues resulting from a decrease in premium rates charged by its insurance carriers. The growth of $1.4 million, or 4.2%, during 2007 results primarily from increased premium rates caused by Katrina as well as new relationships.

Wealth management income totaled $27.6 million for 2008, compared with $25.8 million in 2007 and $23.2 million in 2006. Wealth management consists of income related to investment management, trust and brokerage services. The growth in wealth management income during 2008 and 2007 is largely attributed to an increase in trust and investment management fee income resulting from new account growth. In addition, revenues from brokerage services have increased due to solid and improved production from Trustmark's team of investment representatives. At December 31, 2008 and 2007, Trustmark held assets under management and administration of $6.8 billion and $7.3 billion, respectively, and brokerage assets of $1.1 billion and $1.3 billion, respectively.

General banking-other totaled $23.2 million during 2008, compared with $24.9 million in 2007 and $22.9 million in 2006. General banking-other income consists primarily of fees on various bank products and services as well as bankcard fees and safe deposit box fees. General banking fees and commissions decreased by $1.6 million in 2008 as a result of a decline in fees earned on an interest rate driven product. The major component of bankcard fees involves interchange income earned on electronic transactions related to debit cards and ATMs. In 2008, card fees decreased by $76 thousand compared to an increase of $500 thousand in 2007. The reduction in card fees can be attributed primarily to a decrease in debit card vendor rebates of $316 thousand, which was partially offset by an increase in interchange income of $255 thousand.

Net revenues from mortgage banking were $26.5 million during 2008, compared with $12.0 million in 2007 and $10.0 million in 2006. Net mortgage banking income increased $14.5 million during 2008 compared to an increase of $2.0 million during 2007.

As shown in the accompanying table, net mortgage servicing income increased to $15.7 million for 2008, compared to $14.2 million in 2007 and $13.2 million in 2006. This increase coincides with growth in the balance of the mortgage servicing portfolio as well as an increase in mortgage production. Loans serviced for others totaled $5.0 billion at

December 31, 2008, compared with $4.6 billion at December 31, 2007, and $4.1 billion at December 31, 2006. Trustmark's highly regarded mortgage banking reputation has enabled it to take advantage of competitive disruptions and expand market share.

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

Mortgage Banking Income
($ in thousands)

	2008		2007		2006	
	Amount	% Change	Amount	% Change	Amount	% Change
Mortgage servicing income, net	$15,741	11.0 %	$14,184	7.1 %	$13,248	6.7 %
Change in fair value-MSR from market changes	(34,838)	n/m	(9,460)	n/m	3,122	n/m
Change in fair value of derivatives	45,986	n/m	10,644	n/m	(2,298)	n/m
Change in fair value-MSR from runoff	(8,987)	3.8 %	(9,343)	5.2 %	(9,858)	n/m
Gain on sales of loans	5,968	5.5 %	5,659	2.8 %	5,505	n/m
Other, net	2,610	n/m	340	9.3 %	311	-51.3 %
Mortgage banking, net	$26,480	n/m	$12,024	19.9 %	$10,030	71.6 %

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

Trustmark utilizes derivative 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 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 interest 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. The impact of this strategy resulted in a net positive ineffectiveness of $11.1 million and $1.2 million for the years ended December 31, 2008 and 2007, respectively. The accompanying table shows that the MSR value has declined $34.8 million for the year ended December 31, 2008 compared to the $9.5 million decline in the previous year. The change in 2008 is due primarily to higher prepayment expectations in the servicing portfolio caused by a significant decline in mortgage rates. More than offsetting the MSR value decline is the $46.0 million increase in the value of derivative instruments which is primarily caused by declining Treasury rates. For the year ended December 31, 2007, the value of derivative instruments increased $10.6 million which contributed to the net positive ineffectiveness.

Representing a significant component of mortgage banking income are gains on the sales of loans, which equaled $6.0 million in 2008 compared with $5.7 million in 2007 and $5.5 million in 2006. During both 2008 and 2007, growth in the gain on sales of loans coincides with an increase in loan sales from secondary marketing activities of approximately $128.3 million during 2008 and $64.0 million during 2007.

Other income, net for 2008 was $13.3 million, compared with $10.2 million in 2007 and $10.0 million in 2006. During the first quarter of 2008, Trustmark achieved a $1.0 million gain from the redemption of Trustmark's shares in Visa upon their initial public offering along with $1.1 million in insurance benefits resulting from insurance policies used to cover participants in Trustmark's supplemental retirement plan. Another portion of the increase shown during 2008 occurred during the second quarter and is related to Trustmark's conversion and sale of MasterCard Class A common stock. 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 these shares and sold them through a liquidation program achieving a gain of $5.4 million. These transactions are offset by decreases of $1.1 million in the gain on sale of student loans, $1.8 million in income earned from Trustmark's investment in various limited partnerships and $1.7 million in revenues earned on a product driven by interest rates.

Securities gains totaled $505 thousand during 2008 compared with $112 thousand during 2007. The securities gains for 2008 came primarily from an effort to reduce Trustmark's holding of corporate bonds.

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Noninterest Expense

Trustmark's noninterest expense for 2008 increased $7.3 million, or 2.6%, compared to 2007, while noninterest expense for 2007 increased $16.0 million, or 6.1%, compared to 2006. During 2008, FDIC deposit insurance increased $2.6 million compared to 2007 as Trustmark completed its utilization of credits provided by the FDIC during 2007 in connection with a new deposit assessment system. Also, during 2008, loan and foreclosure expenses increased $3.5 million compared to 2007. Excluding the increased FDIC insurance, loan expense and foreclosure expense, noninterest expense during 2008 increased $1.2 million compared to 2007.

Management considers disciplined expense management a key area of focus in the support of improving shareholder value. Management remains committed to identifying additional reengineering and efficiency opportunities designed to enhance shareholder value. The comparative components of noninterest expense for 2008, 2007 and 2006 are shown in the accompanying table.

Noninterest Expense
($ in thousands)

	2008		2007		2006	
	Amount	% Change	Amount	% Change	Amount	% Change
Salaries and employee benefits	$171,137	0.2%	$170,722	6.9 %	$159,690	6.6 %
Services and fees	38,379	3.0%	37,259	1.6 %	36,659	7.8 %
Net occupancy-premises	19,508	5.4%	18,517	8.2 %	17,120	12.0 %
Equipment expense	16,632	3.7%	16,039	7.7 %	14,899	-1.9 %
Other expense	38,063	12.2%	33,912	5.6 %	32,112	10.7 %
Total Noninterest Expense	$283,719	2.6%	$276,449	6.1 %	$260,480	7.1 %

Salaries and employee benefits, the largest category of noninterest expense, were $171.1 million in 2008, $170.7 million in 2007 and $159.7 million in 2006. 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. Included in the 2007 increase of $11.0 million are approximately $8.0 million in salaries and benefits resulting from the Republic business combination. Adjusted for Republic, salaries and benefits increased $3.0 million, or 1.9%, which reflects general merit increases, the higher cost of performance-based incentive costs and additional costs associated with Trustmark's medical insurance plan.

Services and fees for 2008 increased $1.1 million, or 3.0%, when compared with 2007, while an increase of $0.6 million, or 1.6%, occurred when 2007 is compared with 2006. The 2008 growth in services and fees expenses is primarily the result of the Trustmark's investment in a debit card rewards program implemented during 2008. The ability of Management to control the growth of services and fees benefited from the continued deployment of remote capture implementation across Trustmark's four-state banking franchise during 2008. As a result, courier costs for both 2007 and 2008 were reduced as air transportation was eliminated from the check clearing process. Also during 2007, Trustmark completed technology upgrades which have allowed for the exchange of fully imaged cash letters with the Federal Reserve and other upstream correspondent banks, thus reducing overall check clearing costs for both 2007 and 2008 while improving funds availability. These cost savings were offset by additional expenses associated with the initial implementation of technology enhancements as a result of Trustmark's initiative to proactively manage noninterest expense.

The combined growth in net occupancy-premises expense and equipment expense for 2008 was $1.6 million, or 4.6%, compared with an increase of $2.5 million, or 7.9%, in 2007. Growth in these expense categories can be attributed to Trustmark's continued investment in expanding its market base as well as the initial implementation of technology enhancements. This can be seen by the opening of six new banking centers during 2008 and five new banking centers during 2007. These new banking centers are the primary reason for the increase seen in both years, which resulted primarily from growth in rental expense, advalorem and personal property taxes, depreciation and data processing expenses.

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During 2008, other expenses increased $4.2 million, or 12.2%, while in 2007, other expenses increased $1.8 million, or 5.6%. As mentioned above, the growth in other expenses was the result of increases in FDIC insurance and real estate foreclosure expenses, which increased $6.1 million when compared to 2007. The growth in other expenses during 2007 can be attributed to an accrual for expenses due to the Visa antitrust litigation as well as additional intangible amortization related to the Republic business combination and increased operational expenses resulting from the growth in Trustmark's loan portfolio.

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. The Administration segment incorporates Trustmark's treasury function with various non-allocated corporate operation business units. 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. As discussed below, Management determined to merge the Administration segment into the General Banking segment commencing on January 1, 2009. Consolidated net income for 2008, 2007 and 2006 includes the impact of Katrina. Net income (loss) by operating segment is presented below ($ in thousands):

	2008	2007	2006
General Banking	$ 55,724	$ 104,092	$ 115,847
Insurance	5,377	6,908	6,663
Wealth Management	7,569	6,850	5,648
Administration	23,747	(9,255)	(8,885)
Consolidated Net Income	$ 92,417	$ 108,595	$ 119,273

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.

Net income for the General Banking Division decreased by $48.4 million during 2008, or 46.5%, 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 decreased $22.5 million, noninterest expense increased $9.0 million and noninterest income increased $10.3 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 declined in 2008 by $22.5 million, or 8.1%, due to a $149.3 million decrease in interest income offset with a $126.8 million decrease in interest expense. Noninterest income grew by $10.3 million, or 10.2%, in 2008 and is the result of an increase in revenues earned from mortgage banking. The growth in noninterest expense in 2008 totaled $9.0 million, or 4.6%, 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 services and fees.

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During 2007, net income for the General Banking Division decreased by $11.8 million, or 10.1%, compared with 2006, primarily resulting from an increase in the provision for loan losses of $19.7 million and an increase in noninterest expense of $10.8 million offset by increases in net interest income and noninterest income of $6.2 million and $6.3 million, respectively. As in 2008, the provision for loan losses in the General Banking Division was impacted by an increase in nonperforming loans in Trustmark's Florida Panhandle market. The growth in noninterest expense in 2007 totaled $10.8 million, or 5.8%, and resulted from branch expansion and increases in general expenses including salaries and benefits. Adjusted for the Republic business combination, the increase in noninterest expenses for 2007 would have been $2.6 million, or 1.5%. Noninterest income grew by $6.3 million, or 6.6%, in 2007 and is primarily attributable to an increase in NSF fees, credit card settlement and interchange fees and revenues earned from mortgage banking.

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 $1.5 million, or 22.2%, in 2008, compared to an increase of $245 thousand, or 3.7%, in 2007. 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. The growth for 2007 is related to increased premium rates caused by Katrina, as well as new relationships.

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 clients.

Net income growth within the Wealth Management Division for 2008 was $719 thousand, or 10.5%, compared to $1.2 million, or 21.3%, in 2007. Wealth management revenues are primarily fee generated. In 2008 and 2007, total noninterest income grew by $2.1 million, or 8.1%, and $2.7 million, or 11.6%, respectively. Noninterest expenses increased in 2008 by $1.1 million, or 5.5%, compared to $960 thousand, or 5.1% in 2007. The growth in noninterest expense is due primarily to increases in salaries and benefits related to commissions and incentives that are based on revenue performance.

Administration

The Administration Division consists of internal operations such as Human Resources, Executive Administration, Treasury (Funds Management), Public Affairs and Corporate Finance. Business units include Treasury Administration, Controller's Division, Strategic Sourcing, Sponsorships/Donations, Employee Relations, Employee Benefits, HR Information Systems, Compensation, Payroll and Non-Allocated Administration. Included in the Non-Allocated Administration unit are expenses related to mergers, hurricane relief, 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. During 2008, Trustmark evaluated and considered a reduction in its reporting segments from four to three by combining Administration into General Banking. In 2009, Trustmark determined to make this revision, because the overwhelming majority of the revenues and expenses historically reflected in Administration were directly related to General Banking. This change was implemented during the first quarter of 2009.

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Net income for the Administration Division totaled $23.7 million in 2008, while net losses in 2007 and 2006 totaled $9.3 million and $8.9 million, respectively. The growth in 2008 is due primarily to a $40.6 million increase in net interest income resulting from an $89.5 million increase in interest income primarily resulting from growth in the securities portfolio offset with a $48.9 million increase in interest expense. This growth in 2008 is a result of a steeper yield curve, which caused the earnings credit to segments on deposits to decline by a greater amount than the cost of funds charged to segments on loans. The 2007 increase in Administration net loss results from several factors. In 2007, net interest income totaled $19.1 million, representing an increase of $14.0 million, resulting from a significant increase in internal funding brought on by a change in internal funding rates. This increase in internal funding was offset by a significant rise in the provision for loan losses of $10.0 million, which is attributable to significant Katrina recoveries in 2006.

Income Taxes

For the year ended December 31, 2008, Trustmark's combined effective tax rate was 32.2% compared to 33.4% in 2007 and 34.2% in 2006. The decrease in Trustmark's effective tax rate is due to immaterial changes in permanent items as a percentage of pretax income.

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 $8.179 billion, or 89.6% of total assets, at December 31, 2008, compared with $7.878 billion, or 89.1% of total assets, at December 31, 2007, an increase of $301.1 million, or 3.8%.

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, 2007, total investment securities increased by $1.085 billion during 2008. This increase resulted primarily from purchases of Agency guaranteed collateralized mortgage-backed securities offset by maturities and paydowns. In addition, during 2008, Trustmark sold approximately $157.9 million in securities, generating a gain of approximately $505 thousand. This was a strategy undertaken primarily to reduce lower yielding, shorter-term, higher risk-weight investment portfolio assets.

Management uses the securities portfolio as a tool 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 balances of investment securities at relatively low levels. The weighted-average life during 2008 has somewhat shortened despite the recent investment strategy mentioned above due to a decline in interest rates during the last quarter of 2008 which resulted in an increase in expected principal runoff. As a result, the weighted-average life of the portfolio was 1.85 years at December 31, 2008 compared to 2.40 years at December 31, 2007.

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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,		
	2008	2007	2006
Securities available for sale			
U.S. Treasury and other U.S. Government agencies	$31,323	$8,005	$11,444
Obligations of states and political subdivisions	98,323	45,704	56,839
Mortgage-backed securities	1,375,176	318,815	607,651
Corporate debt securities	8,254	70,971	93,735
Total securities available for sale	$1,513,076	$443,495	$769,669
Securities held to maturity			
Obligations of states and political subdivisions	$102,901	$114,497	$129,879
Mortgage-backed securities	156,728	160,473	162,245
Other securities	-	126	119
Total securities held to maturity	$259,629	$275,096	$292,243

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, 2008, AFS securities totaled $1.543 billion, which represented 85.6% of the securities portfolio, compared to $442.3 million, or 61.7%, at December 31, 2007. At December 31, 2008, unrealized gains, net on AFS securities totaled $29.8 million compared with unrealized losses, net of $1.2 million at December 31, 2007. At December 31, 2008, AFS securities consisted of U.S. Treasury securities, obligations of states and political subdivisions, mortgage related securities, U.S. Government agency obligations and corporate securities.

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, 2008, HTM securities totaled $259.6 million and represented 14.4% of the total portfolio, compared with $275.1 million, or 38.3%, at the end of 2007.

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. Treasury, U.S. Government agency-backed obligations and other AAA rated securities. None of the securities in the portfolio are considered to be 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.

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The following table details the maturities of securities available for sale and held to maturity using amortized cost at December 31, 2008, and the weighted-average yield for each range of maturities (tax equivalent basis):

Maturity/Yield Analysis Table
($ in thousands)

Securities available for sale	Maturing Within One Year	Yield	After One, But Within Five Years	Yield	After Five, But Within Ten Years	Yield	After Ten Years	Yield	Total
U.S. Treasury and other U.S. Government agencies	$6,502	2.05 %	$-	-	$24,821	5.42 %	$-	-	$31,323
Obligations of states and political subdivisions	48,856	7.55 %	26,218	6.14 %	16,103	5.62 %	7,146	5.48 %	98,323
Mortgage-backed securities	11	6.34 %	637	6.10 %	30,824	4.67 %	1,343,704	5.24 %	1,375,176
Corporate debt securities	2,066	4.13 %	6,188	4.46 %	-	-	-	-	8,254
Total securities available for sale	$57,435	6.80 %	$33,043	5.82 %	$71,748	5.14 %	$1,350,850	5.24 %	$1,513,076
Securities held to maturity									
Obligations of states and political subdivisions	$12,789	6.87 %	$29,056	7.21 %	$44,884	7.48 %	$16,172	8.24 %	$102,901
Mortgage-backed securities	-	-	-	-	-	-	156,728	4.55 %	156,728
Total securities held to maturity	$12,789	6.87 %	$29,056	7.21 %	$44,884	7.48 %	$172,900	4.90 %	$259,629

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, 2008, 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.

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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, 2008.

Securities Portfolio by Amortized Cost and Estimated Fair Value
($ in thousands)

	December 31, 2008	
	Amortized Cost	Estimated Fair Value
Securities Available for Sale		
U.S. Treasury and other U.S. government-sponsored entities (GSE)	$31,323	$31,892
Obligations of states and political subdivisions	98,323	98,653
Mortgage-backed securities issued by GSE	1,375,176	1,404,426
Non-agency mortgage-backed securities	-	-
Corporate debt securities	8,254	7,870
Other securities	-	-
Total securities available for sale	$1,513,076	$1,542,841
Securities Held to Maturity		
U.S. Treasury and other U.S. government-sponsored entities (GSE)	$-	$-
Obligations of states and political subdivisions	102,901	105,141
Mortgage-backed securities issued by GSE	156,728	158,898
Non-agency mortgage-backed securities	-	-
Corporate debt securities	-	-
Other securities	-	-
Total securities held to maturity	$259,629	$264,039

Securities Portfolio by Credit Rating (1)
($ in thousands except for percentage data)

	December 31, 2008					
	Amortized Cost			Estimated Fair Value		
	Amount	%		Amount	%	
Securities Available for Sale						
AAA	$1,406,845	93.0	%	$1,436,665	93.1	%
Aa1 to Aa3	49,929	3.3	%	50,102	3.3	%
A1 to A3	17,922	1.2	%	17,560	1.1	%
Baa1 to Baa3	20,934	1.4	%	20,718	1.3	%
Not Rated (2)	17,446	1.1	%	17,796	1.2	%
Total securities available for sale	$1,513,076	100.0	%	$1,542,841	100.0	%
Securities Held to Maturity						
AAA	$159,611	61.5	%	$161,956	61.3	%
Aa1 to Aa3	29,107	11.2	%	30,279	11.5	%
A1 to A3	29,141	11.2	%	29,722	11.2	%
Baa1 to Baa3	6,368	2.5	%	6,541	2.5	%
Not Rated (2)	35,402	13.6	%	35,541	13.5	%
Total securities held to maturity	$259,629	100.0	%	$264,039	100.0	%

(1) - Credit ratings obtained from Moody's rating 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. Approximately 93% of the available for sale securities are AAA rated investment grade, and the same is true with respect to approximately over 60% of held to maturity securities, which are carried at amortized cost. In both cases, the variance between amortized cost and fair value is less than 2%. Thus, Management does not believe that a presentation of credit rating data by category of the underlying security would provide investors with additional material information.

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Loans and Allowance for Loan Losses

Loans at December 31, 2008 totaled $6.722 billion compared to $7.041 billion at December 31, 2007, a decrease of $318.4 million. These declines are directly attributable to a strategic focus to reduce certain loan classifications, specifically construction, land development and other land loans, loans secured by 1-4 family residential properties as well as consumer auto loans. In addition, these decreases 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, 2008 had loans totaling $294.5 million; a decrease of $91.7 million from December 31, 2007. The consumer loan portfolio decrease of $192.3 million primarily represents a decrease in the indirect consumer auto portfolio. The declines in these classifications are expected to continue until the real estate market stabilizes in Florida and overall economic conditions improve.

The table below shows the carrying value of the loan portfolio (including loans held for sale) at the end of each of the last five years:

Loan Portfolio by Type
($ in thousands)

	December 31,				
	2008	2007	2006	2005	2004
Loans secured by real estate:					
Construction, land development and other land loans	$1,028,788	$1,194,940	$896,254	$715,174	$661,808
Secured by 1-4 family residential properties	1,524,061	1,694,757	1,842,886	1,901,196	1,682,249
Secured by nonfarm, nonresidential properties	1,422,658	1,325,379	1,326,658	1,061,669	893,836
Other real estate secured	186,915	167,610	148,921	166,685	156,140
Loans to finance agricultural production and other loans to farmers	18,641	23,692	23,938	40,162	29,885
Commercial and industrial loans	1,305,938	1,283,014	1,106,460	861,167	865,436
Consumer loans	895,046	1,087,337	934,261	880,868	802,334
Obligations of states and political subdivisions	270,599	228,330	233,666	230,214	193,951
Loans for purchasing or carrying securities	20,566	4,949	8,110	5,204	9,799
Other loans	49,191	30,784	41,999	51,004	50,346
Loans	6,722,403	7,040,792	6,563,153	5,913,343	5,345,784
Loans held for sale	238,265	147,508	95,375	146,936	101,222
Loans (including loans held for sale)	$6,960,668	$7,188,300	$6,658,528	$6,060,279	$5,447,006

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The loan composition by region at December 31, 2008 is reflected in the following table. The table reflects a diversified mix of loans by region.

Loan Composition by Region
($ in thousands)

	December 31 ,2008				
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	$1,028,788	$294,473	$397,779	$83,668	$252,868
Secured by 1-4 family residential properties	1,524,061	91,559	1,224,662	175,321	32,519
Secured by nonfarm, nonresidential properties	1,422,658	179,123	804,186	208,751	230,598
Other real estate secured	186,915	12,632	141,951	13,551	18,781
Commercial and industrial loans	1,305,938	18,814	941,563	61,391	284,170
Consumer loans	895,046	3,206	848,835	31,400	11,605
Other loans	358,997	18,505	313,564	18,070	8,858
Loans	$6,722,403	$618,312	$4,672,540	$592,152	$839,399
Construction and Land Development Loans by Region					
Lots	$127,043	$76,849	$31,885	$5,524	$12,785
Development	212,965	35,927	91,465	11,657	73,916
Unimproved land	301,759	114,232	106,522	34,049	46,956
1-4 family construction	191,351	29,246	89,644	11,936	60,525
Other construction	195,670	38,219	78,263	20,502	58,686
Construction and land development loans	$1,028,788	$294,473	$397,779	$83,668	$252,868

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. However, from time to time, as a result of a deterioration of the FICO scores or other credit attributes of individual borrowers, a small portion of TNB’s loans migrate into the subprime category (and, conversely, some subprime loans migrate out for borrowers whose FICO scores or other credit attributes improve). The impact of such migration has not historically had, nor is it expected to have, a material effect on TNB’s results of operations. At December 31, 2008, TNB held “alt A” mortgages with an aggregate principal balance of approximately $2.46 million (less than 0.06% of total loans secured by real estate at that date). These “alt A” loans have been originated by TNB as an accommodation to certain TNB customers for whom TNB determined that such loans were suitable under the purposes of the Fannie Mae “alt A” program and under TNB’s loan origination standards. TNB 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 TNB’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, a large portion of TNB's portfolio matures in less than one year. Such a short-term maturity profile is not unusual for a commercial bank and provides TNB 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 TNB'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, 2008:

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	$797,774	$181,454	$49,560	$1,028,788
Secured by 1-4 family residential properties	553,167	350,425	620,469	1,524,061
Other loans secured by real estate	563,530	776,980	269,063	1,609,573
Commercial and industrial	744,490	495,111	66,337	1,305,938
Consumer loans	80,205	725,584	89,257	895,046
Other loans	92,038	93,798	173,161	358,997
Total	$2,831,204	$2,623,352	$1,267,847	$6,722,403

The following table provides information regarding Trustmark's loan maturities by interest rate sensitivity at December 31, 2008:

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	$982,418	$2,535,303	$1,186,948	$4,704,669
Floating interest rates	1,848,786	88,049	80,899	2,017,734
Total	$2,831,204	$2,623,352	$1,267,847	$6,722,403

The allowance for loan losses totaled $94.9 million and $79.9 million at December 31, 2008 and 2007, respectively. 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. SFAS Nos. 5 and 114 limit the amount of the loss allowance to the estimate of losses that have been incurred at the balance sheet reporting date. Accordingly, the allowance is based upon past events and current economic conditions.

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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At December 31, 2008, the allowance for loan losses was $94.9 million, an increase of $15.1 million when compared with December 31, 2007, primarily resulting from an increase in nonperforming loans of $48.9 million during 2008. 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 the overbuilding of residential real estate. Management 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, 2008, was 166.1%, compared to 122.5% at December 31, 2007. Trustmark's allocation of its allowance for loan losses represents 1.79% of commercial loans and 0.72% of consumer and home mortgage loans, resulting in an allowance to total loans of 1.41% at December 31, 2008. This compares with an allowance to total loans of 1.13% at December 31, 2007, which was allocated to commercial loans at 1.48% and to consumer and mortgage loans at 0.59%.

Nonperforming assets totaled $152.6 million at December 31, 2008, an increase of $79.1 million relative to December 31, 2007. As seen in the table below, the change during 2008 was largely attributable to increases in nonaccrual loans and other real estate originating in Trustmark's Florida market. The increase in Texas during 2008 primarily results from an increase of $10.0 million in nonaccrual loans due to a single energy-related credit in Trustmark's Houston, Texas market. This exposure is appropriately reserved and no additional write-downs are anticipated.

Nonperforming Assets
($ in thousands)

	December 31,	
	2008	2007
Nonaccrual loans		
Florida	$75,092	$43,787
Mississippi (1)	18,703	13,723
Tennessee (2)	3,638	4,431
Texas	16,605	3,232
Total nonaccrual loans	114,038	65,173
Other real estate		
Florida	21,265	995
Mississippi (1)	6,113	1,123
Tennessee (2)	8,862	6,084
Texas	2,326	146
Total other real estate	38,566	8,348
Total nonperforming assets	$152,604	$73,521

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

During the second quarter of 2008, Trustmark conducted extensive reviews of the construction and land development portfolio of its Florida Panhandle market and has since devoted significant resources to managing credit risks resulting from the slowdown in residential real estate. As seen in the table below, approximately $95.8 million in construction and land development loans have been classified and reserved for at appropriate levels, including $50.1 million of impaired loans that have been charged down to net realizable value. At December 31, 2008, Management believes that this portfolio is appropriately risk rated and adequately reserved based upon current conditions. Trustmark's Mississippi, Tennessee and Texas loan portfolios continue to perform relatively well in the current economic environment.

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Florida Credit Quality (1)
($ in thousands)

	Total Loans	Criticized Loans (2)	Classified Loans (3)	Nonaccrual Loans	Impaired Loans (4)
Construction and land development loans:					
Lots	$76,849	$ 21,174	$15,529	$10,386	$5,698
Development	35,927	17,462	17,462	17,461	8,636
Unimproved land	114,232	69,462	36,247	20,496	19,680
1-4 family construction	29,246	12,626	12,626	9,630	9,630
Other construction	38,219	24,952	13,959	9,328	6,482
Construction and land development loans	294,473				