

FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from _____ to _____

Commission file number: 0-3683

TRUSTMARK CORPORATION

State or other jurisdiction of
incorporation or organization
Mississippi

(I.R.S. Employer
Identification No.)
64-0471500

Trustmark Corporation
248 East Capitol Street
Jackson, MS 39201
(601) 208-5111

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of October 31, 2003.

Title
Common stock, no par value

Outstanding
58,459,443

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) September 30, 2003	December 31, 2002
Assets		
Cash and due from banks (noninterest-bearing)	\$ 284,779	\$ 357,427
Federal funds sold and securities purchased under reverse repurchase agreements	59,500	23,957
Securities available for sale (at fair value)	1,676,969	1,262,570
Securities held to maturity (fair value: \$215,482 - 2003; \$578,150 - 2002)	201,052	549,197
Loans held for sale	158,710	199,680
Loans	4,865,500	4,417,686
Less allowance for loan losses	74,486	74,771
Net loans	4,791,014	4,342,915
Premises and equipment	109,126	104,113
Intangible assets	167,738	119,643
Other assets	184,216	179,204
Total Assets	\$ 7,633,104	\$ 7,138,706
Liabilities		
Deposits:		
Noninterest-bearing	\$ 1,256,697	\$ 1,251,240
Interest-bearing	3,740,256	3,435,056
Total deposits	4,996,953	4,686,296
Federal funds purchased	397,333	319,985
Securities sold under repurchase agreements	427,377	634,993
Short-term borrowings	635,111	275,959
Long-term FHLB advances	431,068	475,000
Other liabilities	63,164	66,939
Total Liabilities	6,951,006	6,459,172
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 58,519,206 shares - 2003; 60,516,668 shares - 2002	12,193	12,609
Capital surplus	140,154	188,652
Retained earnings	529,154	470,317
Accumulated other comprehensive income, net of tax	597	7,956
Total Shareholders' Equity	682,098	679,534
Total Liabilities and Shareholders' Equity	\$ 7,633,104	\$ 7,138,706

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Interest Income				
Interest and fees on loans	\$ 71,093	\$ 77,554	\$ 212,960	\$ 231,100
Interest on securities:				
Taxable	12,065	21,519	50,610	70,197
Tax exempt	1,953	2,175	6,033	6,747
Interest on federal funds sold and securities purchased under reverse repurchase agreements	60	150	236	345
Other interest income	14	23	37	1,368
Total Interest Income	<u>85,185</u>	<u>101,421</u>	<u>269,876</u>	<u>309,757</u>
Interest Expense				
Interest on deposits	14,167	19,634	45,882	61,432
Interest on federal funds purchased and securities sold under repurchase agreements	2,269	3,058	8,096	9,946
Other interest expense	4,918	5,636	14,681	16,566
Total Interest Expense	<u>21,354</u>	<u>28,328</u>	<u>68,659</u>	<u>87,944</u>
Net Interest Income	<u>63,831</u>	<u>73,093</u>	<u>201,217</u>	<u>221,813</u>
Provision for loan losses	<u>1,771</u>	<u>3,000</u>	<u>7,420</u>	<u>10,307</u>
Net Interest Income After Provision for Loan Losses	<u>62,060</u>	<u>70,093</u>	<u>193,797</u>	<u>211,506</u>
Noninterest Income				
Service charges on deposit accounts	14,304	12,725	40,054	36,546
Other account charges and fees	7,267	7,082	21,028	21,286
Insurance commissions	7,708	7,107	16,458	13,580
Mortgage servicing fees	4,091	4,310	12,652	12,925
Trust service income	2,519	2,402	7,176	7,413
Gains on sales of loans	5,571	2,376	14,715	6,050
Securities gains	57	12,033	12,226	12,549
Other income	(1,614)	(3,114)	(1,137)	(5,792)
Total Noninterest Income	<u>39,903</u>	<u>44,921</u>	<u>123,172</u>	<u>104,557</u>
Noninterest Expense				
Salaries and employee benefits	31,434	30,568	96,855	89,030
Net occupancy - premises	3,395	3,168	9,541	8,863
Equipment expense	3,721	3,598	11,104	11,357
Services and fees	7,806	8,093	23,696	23,720
Amortization/impairment of intangible assets	(1,389)	15,063	19,015	18,886
Loan expense	2,352	2,373	7,155	7,314
Other expense	5,397	5,618	15,023	15,015
Total Noninterest Expense	<u>52,716</u>	<u>68,481</u>	<u>182,389</u>	<u>174,185</u>
Income Before Income Taxes	<u>49,247</u>	<u>46,533</u>	<u>134,580</u>	<u>141,878</u>
Income taxes	<u>16,829</u>	<u>16,471</u>	<u>46,514</u>	<u>50,084</u>
Net Income	<u>\$ 32,418</u>	<u>\$ 30,062</u>	<u>\$ 88,066</u>	<u>\$ 91,794</u>
Earnings Per Share				
Basic	<u>\$ 0.55</u>	<u>\$ 0.49</u>	<u>\$ 1.49</u>	<u>\$ 1.47</u>
Diluted	<u>\$ 0.55</u>	<u>\$ 0.49</u>	<u>\$ 1.48</u>	<u>\$ 1.46</u>

See notes to consolidated financial statements.

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

	<u>2003</u>	<u>2002</u>
Balance, January 1,	\$ 679,534	\$ 685,444
Comprehensive income:		
Net income per consolidated statements of income	88,066	91,794
Net change in fair value of securities available for sale, net of tax	(10,325)	(1,198)
Net change in fair value of cash flow hedges, net of tax	<u>2,966</u>	<u>(3,101)</u>
Comprehensive income	80,707	87,495
Cash dividends paid	(29,229)	(28,166)
Exercise of stock options	1,995	-
Stock compensation expense	266	-
Repurchase and retirement of common stock	<u>(51,175)</u>	<u>(52,139)</u>
Balance, September 30,	<u><u>\$ 682,098</u></u>	<u><u>\$ 692,634</u></u>

See notes to consolidated financial statements.

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

	Nine Months Ended Sept. 30,	
	2003	2002
Operating Activities		
Net income	\$ 88,066	\$ 91,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	7,420	10,307
Depreciation and amortization/impairment	28,032	28,414
Net amortization (accretion) of securities	13,886	(750)
Securities gains	(12,226)	(12,549)
Gains on sales of loans	(14,715)	(6,050)
Deferred income tax provision (benefit)	977	(5,036)
Proceeds from sales of loans	1,217,389	673,698
Purchases and originations of loans held for sale	(1,176,419)	(715,427)
Net increase in intangible assets	(17,586)	(10,385)
Net increase in other assets	(6,876)	(257)
Net increase (decrease) in other liabilities	689	(1,992)
Other operating activities, net	(54)	547
Net cash provided by operating activities	128,583	52,314
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	429,647	198,991
Proceeds from calls and maturities of securities available for sale	349,382	263,676
Proceeds from sales of securities available for sale	267,895	229,442
Purchases of securities held to maturity	(3,978)	(19,708)
Purchases of securities available for sale	(1,127,658)	(361,982)
Net increase in federal funds sold and securities purchased under reverse repurchase agreements	(35,543)	(51,535)
Net increase in loans	(218,389)	(51,728)
Purchases of premises and equipment	(5,964)	(14,901)
Proceeds from sales of premises and equipment	1,287	19
Proceeds from sales of other real estate	4,510	3,149
Cash paid in business combinations, net	(69,802)	(7,799)
Net cash (used in) provided by investing activities	(408,613)	187,624
Financing Activities		
Net increase in deposits	100,839	208,829
Net decrease in federal funds purchased and securities sold under repurchase agreements	(130,268)	(313,490)
Net increase (decrease) in other borrowings	359,152	(128,927)
(Maturities of) proceeds from long-term FHLB advances	(43,932)	100,000
Cash dividends	(29,229)	(28,166)
Proceeds from the exercise of stock options	1,995	-
Repurchase and retirement of common stock	(51,175)	(52,139)
Net cash provided by (used in) financing activities	207,382	(213,893)
(Decrease) increase in cash and cash equivalents	(72,648)	26,045
Cash and cash equivalents at beginning of period	357,427	328,779
Cash and cash equivalents at end of period	\$ 284,779	\$ 354,824

See notes to consolidated financial statements.

TRUSTMARK CORPORATION & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The notes included herein should be read in conjunction with the notes to the consolidated financial statements included in Trustmark Corporation's (Trustmark) 2002 annual report on Form 10-K.

The consolidated financial statements include Trustmark and its wholly-owned bank subsidiaries, Trustmark National Bank (TNB) and Somerville Bank & Trust Company (Somerville). All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period amounts to conform with the current period presentation.

NOTE 2 – BUSINESS COMBINATIONS

On August 29, 2003, Trustmark acquired seven Florida branches of The Banc Corporation of Birmingham, Alabama, in a business combination accounted for by the purchase method of accounting. These branches, known as the Emerald Coast Division, serve the markets from Destin to Panama City. In connection with the transaction, Trustmark paid a \$46.8 million deposit premium in exchange for \$232.8 million in assets and \$209.2 million in deposits and other liabilities. Assets consisted of \$224.3 million in loans, \$6.8 million in premises and equipment and \$1.7 million in other assets. These assets and liabilities have been recorded at fair value based on market conditions and risk characteristics at the acquisition date. Loans were recorded at a \$1.9 million discount, consisting of a discount for general credit risk of \$3.5 million offset by a market premium of \$1.6 million. This net discount will be recognized as interest income over the estimated life of the loans. Excess costs over tangible net assets acquired totaled \$49.5 million, of which \$1.7 million and \$47.8 million have been allocated to core deposits and goodwill, respectively. Trustmark's financial statements include the results of operations for this acquisition from the merger date. The pro forma impact of this acquisition on Trustmark's results of operations is insignificant.

On June 28, 2002, The Bottrell Insurance Agency, Inc., a wholly-owned subsidiary of TNB, acquired Chandler-Sampson Insurance, Inc. (CSI) in Jackson, Mississippi. This business combination, which is not material to Trustmark, was accounted for under the purchase method of accounting. The shareholders of CSI received \$8 million in cash in connection with the merger. Excess cost over tangible net assets acquired totaled \$10 million, of which \$3 million and \$7 million have been allocated to other identifiable intangible assets and goodwill, respectively. Trustmark's financial statements include the results of operations for the CSI acquisition from the merger date. The pro forma impact of this acquisition on Trustmark's results of operations is insignificant.

NOTE 3 – ALLOWANCE FOR LOAN LOSSES

The following table summarizes the activity in the allowance for loan losses for the nine-month periods ended September 30 (\$ in thousands):

	2003	2002
Balance at beginning of year	\$ 74,771	\$ 75,534
Provision charged to expense	7,420	10,307
Loans charged off	(14,675)	(17,281)
Recoveries	6,970	6,978
Net charge-offs	(7,705)	(10,303)
Balance at end of period	<u>\$ 74,486</u>	<u>\$ 75,538</u>

At September 30, 2003 and 2002, the carrying amounts of nonaccrual loans were \$26.9 million and \$31.0 million, respectively. Included in these nonaccrual loans at September 30, 2003 and 2002, are loans that are considered to be impaired, which totaled \$19.6 million and \$23.7 million, respectively. At September 30, 2003, the total allowance for loan losses related to impaired loans was \$6.1 million compared with \$6.4 million at September 30, 2002. The average carrying amounts of impaired loans during the third quarter of 2003 and 2002 were \$20.4 million and \$28.7 million, respectively. No material amounts of interest income were recognized on impaired loans or nonaccrual loans for the third quarter of 2003 or 2002.

NOTE 4 – INTANGIBLE ASSETS

At September 30, 2003 and December 31, 2002, intangible assets, net of any applicable amortization or impairment, consisted of the following (\$ in thousands):

	September 30, 2003	December 31, 2002
Mortgage servicing rights	\$ 48,767	\$ 48,827
Goodwill	95,877	48,028
Other identifiable intangible assets:		
Core deposit intangibles	18,986	19,288
Insurance customer relationship intangibles	2,491	2,904
Banking charter	1,021	-
Total amortizable	<u>22,498</u>	<u>22,192</u>
Pension plan intangible	596	596
Total other identifiable intangible assets	<u>23,094</u>	<u>22,788</u>
Total intangible assets	<u>\$ 167,738</u>	<u>\$ 119,643</u>

NOTE 5 – STOCK-BASED COMPENSATION

Prior to January 1, 2003, Trustmark accounted for incentive stock options under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, because the exercise price of Trustmark's stock options equaled the market price for the underlying stock on the date of grant, no compensation expense was recognized. Effective January 1, 2003, Trustmark adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Under the provisions of these statements, Trustmark will recognize compensation

expense for all awards granted, modified or settled after January 1, 2003. The following table reflects pro forma net income and earnings per share for the periods presented, had Trustmark elected to adopt the fair value approach for all outstanding options prior to January 1, 2003 (\$ in thousands except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income, as reported	\$ 32,418	\$ 30,062	\$ 88,066	\$ 91,794
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects	87	-	167	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(336)	(382)	(1,008)	(1,148)
Pro forma net income	<u>\$ 32,169</u>	<u>\$ 29,680</u>	<u>\$ 87,225</u>	<u>\$ 90,646</u>
Earnings per share:				
As reported				
Basic	\$ 0.55	\$ 0.49	\$ 1.49	\$ 1.47
Diluted	0.55	0.49	1.48	1.46
Pro forma				
Basic	\$ 0.55	\$ 0.48	\$ 1.47	\$ 1.45
Diluted	0.55	0.48	1.47	1.44

NOTE 6 - CONTINGENCIES

Standby Letters of Credit

Trustmark issues financial and performance standby letters of credit in the normal course of business in order to fulfill the financing needs of its customers. Standby letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third party. A financial standby letter of credit is a commitment by Trustmark to guarantee a customer's repayment of an outstanding loan or debt instrument. Trustmark guarantees a customer's performance to a third party under a contractual nonfinancial obligation through the use of a performance standby letter of credit. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral which are followed in the lending process.

At September 30, 2003, the maximum potential amount of future payments Trustmark could be required to make under its standby letters of credit was \$73.9 million, which also represented the maximum credit risk associated with these commitments. This amount consisted primarily of commitments with maturities of less than three years. These standby letters of credit have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of September 30, 2003, the fair value of collateral held was \$21.5 million.

Legal Proceedings

Trustmark and its subsidiaries are parties to lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to the lending, collection, servicing, investment, trust and other business activities; and some of the lawsuits allege substantial claims for damages. The cases

are being vigorously contested. In the regular course of business, Management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever Management believes that such losses are probable and can be reasonably estimated. At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that the final resolution of pending legal proceedings will not have a material impact on Trustmark's consolidated financial position or results of operations.

NOTE 7 – EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Basic	58,626,951	61,786,676	59,214,354	62,608,357
Dilutive shares (related to stock options)	271,346	174,357	191,656	192,152
Diluted	58,898,297	61,961,033	59,406,010	62,800,509

NOTE 8 - STATEMENTS OF CASH FLOWS

Trustmark paid income taxes of \$45.3 million and \$47.2 million during the nine months ended September 30, 2003 and 2002, respectively. Interest paid on deposit liabilities and other borrowings totaled \$70.8 million in the first nine months of 2003 and \$92.6 million in the first nine months of 2002. For the nine months ended September 30, 2003 and 2002, noncash transfers from loans to foreclosed properties were \$4.4 million and \$5.5 million, respectively.

NOTE 9 – RECENT PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement applies to three categories of freestanding financial instruments: 1) certain mandatorily redeemable instruments, 2) instruments with repurchase obligations and 3) instruments with obligations to issue a variable number of shares. The statement requires that previously issued instruments that fall within the scope of the statement must be reclassified as liabilities, and subsequent changes in the measurements of the instruments treated as liabilities must flow through to the income statement. For public companies, this statement became effective for all freestanding financial instruments entered into or modified after May 31, 2003. Otherwise it became effective at the beginning of the first interim period beginning after June 15, 2003. Currently, Trustmark does not have any financial instruments within the scope of this statement.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The effects of this

statement did not have a material impact on Trustmark's consolidated financial position or results of operations upon adoption on June 30, 2003.

NOTE 10 – SEGMENT INFORMATION

Effective January 1, 2003, Trustmark changed the composition of its reportable segments to the following: Consumer Division, Commercial Division, Investment Division and Operations Division. The Consumer Division delivers a full range of banking, investment and risk management products and services to individuals and small businesses through Trustmark's extensive branch network. Included in this segment are products and services for insurance, credit card, mortgage, indirect automobile financing and student loans. The Commercial Division provides various financial products and services to corporate and middle-market clients. Included among these products and services are specialized services for commercial and residential real estate development lending as well as other specialized lending services. The Investment Division includes trust and fiduciary services, discount brokerage services and services for private banking clients. Also included in this segment is a selection of investment management services including Trustmark's proprietary mutual fund family. The Operations Division consists of asset/liability management activities that include the investment portfolio and the related gains/losses on sales of securities, as well as credit risk management, bank operations, human resources and the controller's department. The Operations Division also includes expenses such as corporate overhead and amortization of intangible assets.

Trustmark evaluates performance and allocates resources based on the profit or loss of the individual segments. Trustmark utilizes matched maturity transfer pricing to assign cost of funding to assets and earnings credits to liabilities with a corresponding offset to the Operations Division. Trustmark allocates noninterest expense based on various activity-based costing statistics. Excluding internal funding, Trustmark does not have inter-company revenues or expenses. Additionally, segment income tax expense is calculated using the marginal tax rate. The difference between the marginal and effective tax rate is included in the Operations Division.

The tables on pages 11 and 12 disclose financial information, by segment, for the periods ended September 30, 2003 and 2002. The prior year period has been restated to conform to the current presentation.

Trustmark Corporation
Segment Information
(\$ in thousands)

For the three months ended September 30, 2003	Consumer Division	Commercial Division	Investment Division	Operations Division	Total
Net interest income from external customers	\$ 43,196	\$ 12,808	\$ 1,150	\$ 6,677	\$ 63,831
Internal funding	9,187	(1,713)	233	(7,707)	-
Net interest income	52,383	11,095	1,383	(1,030)	63,831
Provision for loan losses	1,742	(34)	61	2	1,771
Net interest income after provision for loan losses	50,641	11,129	1,322	(1,032)	62,060
Noninterest income	30,963	1,708	5,222	2,010	39,903
Noninterest expense	40,572	3,716	4,825	3,603	52,716
Income (loss) before income taxes	41,032	9,121	1,719	(2,625)	49,247
Income taxes	14,333	3,147	617	(1,268)	16,829
Segment net income (loss)	<u>\$ 26,699</u>	<u>\$ 5,974</u>	<u>\$ 1,102</u>	<u>\$ (1,357)</u>	<u>\$ 32,418</u>

Selected Financial Information

Average assets	\$ 4,235,614	\$ 1,097,256	\$ 133,132	\$ 2,033,468	\$ 7,499,470
Depreciation and amortization	\$ (399)	\$ 34	\$ 100	\$ 1,972	\$ 1,707

**For the three months ended
September 30, 2002**

Net interest income from external customers	\$ 41,208	\$ 15,094	\$ 1,235	\$ 15,556	\$ 73,093
Internal funding	7,663	(3,750)	(180)	(3,733)	-
Net interest income	48,871	11,344	1,055	11,823	73,093
Provision for loan losses	2,531	614	(11)	(134)	3,000
Net interest income after provision for loan losses	46,340	10,730	1,066	11,957	70,093
Noninterest income	28,039	1,716	5,356	9,810	44,921
Noninterest expense	57,134	3,672	4,358	3,317	68,481
Income before income taxes	17,245	8,774	2,064	18,450	46,533
Income taxes	5,966	3,027	857	6,621	16,471
Segment net income	<u>\$ 11,279</u>	<u>\$ 5,747</u>	<u>\$ 1,207</u>	<u>\$ 11,829</u>	<u>\$ 30,062</u>

Selected Financial Information

Average assets	\$ 3,868,615	\$ 1,107,491	\$ 124,759	\$ 1,719,484	\$ 6,820,349
Depreciation and amortization	\$ 15,919	\$ 41	\$ 83	\$ 2,097	\$ 18,140

Trustmark Corporation
Segment Information
(\$ in thousands)

	Consumer Division	Commercial Division	Investment Division	Operations Division	Total
For the nine months ended September 30, 2003					
Net interest income from external customers	\$ 124,401	\$ 38,892	\$ 3,587	\$ 34,337	\$ 201,217
Internal funding	25,034	(6,026)	212	(19,220)	-
Net interest income	149,435	32,866	3,799	15,117	201,217
Provision for loan losses	6,954	56	39	371	7,420
Net interest income after provision for loan losses	142,481	32,810	3,760	14,746	193,797
Noninterest income	86,469	5,316	14,905	16,482	123,172
Noninterest expense	140,586	11,321	13,551	16,931	182,389
Income before income taxes	88,364	26,805	5,114	14,297	134,580
Income taxes	30,887	9,248	1,864	4,515	46,514
Segment net income	<u>\$ 57,477</u>	<u>\$ 17,557</u>	<u>\$ 3,250</u>	<u>\$ 9,782</u>	<u>\$ 88,066</u>

Selected Financial Information

Average assets	\$ 4,075,837	\$ 1,105,490	\$ 123,324	\$ 2,008,779	\$ 7,313,430
Depreciation and amortization	\$ 21,491	\$ 107	\$ 310	\$ 6,124	\$ 28,032

**For the nine months ended
September 30, 2002**

Net interest income from external customers	\$ 118,787	\$ 44,640	\$ 3,704	\$ 54,682	\$ 221,813
Internal funding	23,750	(12,395)	(739)	(10,616)	-
Net interest income	142,537	32,245	2,965	44,066	221,813
Provision for loan losses	7,361	2,447	(141)	640	10,307
Net interest income after provision for loan losses	135,176	29,798	3,106	43,426	211,506
Noninterest income	73,650	5,188	16,338	9,381	104,557
Noninterest expense	141,125	10,513	12,707	9,840	174,185
Income before income taxes	67,701	24,473	6,737	42,967	141,878
Income taxes	23,472	8,443	2,580	15,589	50,084
Segment net income	<u>\$ 44,229</u>	<u>\$ 16,030</u>	<u>\$ 4,157</u>	<u>\$ 27,378</u>	<u>\$ 91,794</u>

Selected Financial Information

Average assets	\$ 3,824,155	\$ 1,091,807	\$ 106,136	\$ 1,807,926	\$ 6,830,024
Depreciation and amortization	\$ 21,357	\$ 123	\$ 255	\$ 6,679	\$ 28,414

ITEM 2. 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.

BUSINESS

Trustmark is a multi-bank holding company headquartered in Jackson, Mississippi, incorporated under the Mississippi Business Corporation Act on August 5, 1968. Trustmark commenced doing business in November 1968. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions to corporate, institutional and individual customers predominantly within the states of Mississippi, Tennessee and Florida.

Trustmark National Bank (TNB), Trustmark's wholly-owned subsidiary, accounts for substantially all of the assets and revenues of Trustmark. Initially chartered by the State of Mississippi in 1889, TNB is also headquartered in Jackson, Mississippi. In addition to banking activities, TNB provides investment and insurance products and services to its customers through three wholly-owned subsidiaries, Trustmark Financial Services, Inc., Trustmark Investment Advisors, Inc. and The Bottrell Insurance Agency, Inc.

Trustmark also engages in banking activities through its wholly-owned subsidiary, Somerville Bank & Trust Company (Somerville), headquartered in Somerville, Tennessee. Somerville was acquired in a business combination during 2001 and presently has five locations in Somerville, Hickory Withe and Rossville, Tennessee. In addition to its banking subsidiaries, Trustmark also owns all of the stock of F. S. Corporation and First Building Corporation, both inactive nonbank Mississippi corporations. Neither Trustmark nor its subsidiaries have any foreign activities. As of September 30, 2003, Trustmark and its subsidiaries employed 2,365 full-time equivalent employees.

Trustmark engages in business through its four reportable segments: Consumer Division, Commercial Division, Investment Division and Operations Division. The Consumer Division delivers a full range of banking, investment and risk management products and services to individuals and small businesses through Trustmark's extensive branch network. The Commercial Division provides various financial products and services to corporate and middle-market clients. The Investment Division includes trust and fiduciary services, discount brokerage services and services for private banking clients. The Operations Division consists of asset/liability management activities that include the investment portfolio and the related gains/losses on sales of securities, as well as credit risk management, bank operations, human resources and the controller's department.

FORWARD-LOOKING STATEMENTS

Certain statements contained in Trustmark's Management's Discussion and Analysis of Financial Condition and Results of Operations are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to anticipated future operating and financial performance measures, including net interest margin, credit quality, business initiatives, growth opportunities and growth rates, among other things. Words such as "expects," "anticipates," "believes," "estimates" and other similar expressions are intended to identify these forward-looking statements. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary

significantly from those anticipated, estimated, projected or expected. These risks could cause actual results to differ materially from current expectations of Management and include the following:

- ❖ The level of nonperforming assets, charge-offs and provision expense can be affected by local, state and national economic and market conditions as well as Management's judgments regarding collectibility of loans.
- ❖ Material changes in market interest rates can materially affect many aspects of Trustmark's financial condition and results of operations. Trustmark is exposed to the potential of losses arising from adverse changes in market interest rates and prices which can adversely impact the value of financial products, including securities, loans, deposits, debt and derivative financial instruments. Factors that may affect the market interest rates include local, regional and national economic conditions; utilization and effectiveness of market interest rate contracts; and the availability of wholesale and retail funding sources to Trustmark. Many of these factors are outside Trustmark's control.
- ❖ Increases in prepayment speeds of mortgage loans resulting from a declining interest rate environment will have an impact on the fair value of the mortgage servicing portfolio which can materially affect Trustmark's results of operations.
- ❖ The costs and effects of litigation and of unexpected or adverse outcomes in such litigation can materially affect Trustmark's results of operations.
- ❖ Competition in loan and deposit pricing, as well as the entry of new competitors into our markets through de novo expansion and acquisitions, among other means, could have an effect on Trustmark's operations in our existing markets.
- ❖ Trustmark is subject to regulation by federal banking agencies and authorities and the Securities and Exchange Commission. Changes in existing regulations or the adoption of new regulations could make it more costly for Trustmark to do business or could force changes in the manner Trustmark does business, which could have an impact on Trustmark's financial condition or results of operations.

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. These statements are representative only as of the date hereof, and Trustmark does not assume any obligation to update these forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

CRITICAL ACCOUNTING POLICIES

Trustmark's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates and assumptions that affect the amounts reported in those consolidated financial statements. The following is a description of the accounting policies applied by Trustmark, which are deemed "critical." Critical accounting policies are defined as policies that are important to the portrayal of Trustmark's financial condition and results of operations and that require Management's most difficult, subjective or complex judgments. Actual financial results could differ significantly if different judgments or estimates are applied in the application of these policies.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level Management and the Board of Directors believe is adequate to absorb estimated probable losses within the loan portfolio. A formal analysis is prepared monthly to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan

losses. The analysis for loan losses considers any identified impairment as well as estimates which have been determined by applying specific allowance factors to the commercial and consumer loan portfolios.

Commercial loans as well as commercial real estate loans carry an internally assigned risk grade based on a scale of one to ten. An allowance factor is assigned to each loan grade based on historical loan losses in addition to other factors such as the level and trend of delinquencies, classified and criticized loans and nonperforming loans. Other factors are also taken into consideration such as local, regional and national economic trends, industry and other types of concentrations and loan loss trends that run counter to historical averages. All classified loans greater than \$500 thousand are reviewed quarterly by the Asset Review Department to determine if a higher allowance factor should be applied to the loan based on a greater level of risk and probability of loss.

Consumer loans carry allowance factors applied to pools of homogeneous loans such as direct and indirect loans, credit cards, home equity loans, other types of revolving consumer lines of credit and residential mortgage loans. The allowance factor applied to each pool is based on historical loan loss trends as well as current and projected trends in loan losses. Also taken into consideration are trends in consumer delinquencies, consumer bankruptcies and the effectiveness of Trustmark's collection function as well as economic conditions and trends referred to above.

Mortgage Servicing Rights

Mortgage servicing rights are rights to service mortgage loans for others, whether the loans were acquired through purchase or loan origination. Purchased mortgage servicing rights are capitalized at cost. For loans originated and sold where the servicing rights have been retained, Trustmark allocates the cost of the loan and the servicing right based on their relative fair values. Impairment, if any, for mortgage servicing rights is recognized through a valuation allowance with a corresponding charge to noninterest expense that is determined using estimated fair values based on specific risk characteristics of the underlying mortgages. During the quarter ended September 30, 2003, Trustmark expanded its risk characteristics, which had previously included product type and term, to include interest rates on the underlying mortgages. This change in estimate was necessary because of the recent volatile interest rate environment. This change in estimate reduced the impairment recovery during the quarter ended September 30, 2003, by approximately \$2.7 million before tax (\$1.7 million after tax or \$0.03 per share). As of September 30, 2003, mortgage servicing rights had a gross carrying amount of \$66.2 million with a valuation allowance of \$17.5 million. As of year-end 2002, mortgage servicing rights had a gross carrying amount of \$61.3 million with a valuation allowance of \$12.5 million.

Fair Values

Determining the fair value of net assets acquired through business combinations, including the recognition of intangible assets, involves a high degree of judgment and complexity. Certain assets, such as loans held for sale, are accounted for at the lower of cost or fair value. Some of these assets do not have readily available market quotations and require an estimation of their fair value. Additionally, certain recorded assets, such as goodwill and core deposit intangibles, are subject to periodic impairment analysis. As of September 30, 2003, Trustmark had unamortized goodwill totaling \$95.9 million and other identifiable intangible assets subject to amortization totaling \$22.5 million. These intangible assets are evaluated for impairment periodically. Impairment, if any, for goodwill and other identifiable intangible assets would be charged to noninterest expense.

BUSINESS COMBINATIONS

On August 29, 2003, Trustmark acquired seven Florida branches of The Banc Corporation of Birmingham, Alabama, in a business combination accounted for by the purchase method of accounting.

These branches, known as the Emerald Coast Division, serve the markets from Destin to Panama City. In connection with the transaction, Trustmark paid a \$46.8 million deposit premium in exchange for \$232.8 million in assets and \$209.2 million in deposits and other liabilities. Assets consisted of \$224.3 million in loans, \$6.8 million in premises and equipment and \$1.7 million in other assets. These assets and liabilities have been recorded at fair value based on market conditions and risk characteristics at the acquisition date. Loans were recorded at a \$1.9 million discount, consisting of a discount for general credit risk of \$3.5 million offset by a market premium of \$1.6 million. This net discount will be recognized as interest income over the estimated life of the loans. Excess costs over tangible net assets acquired totaled \$49.5 million, of which \$1.7 million and \$47.8 million have been allocated to core deposits and goodwill, respectively. Trustmark's financial statements include the results of operations for this acquisition from the merger date. The pro forma impact of this acquisition on Trustmark's results of operations is insignificant.

On June 28, 2002, The Bottrell Insurance Agency, Inc., a wholly-owned subsidiary of TNB, acquired Chandler-Sampson Insurance, Inc. (CSI) in Jackson, Mississippi. This business combination, which is not material to Trustmark, was accounted for under the purchase method of accounting. The shareholders of CSI received \$8 million in cash in connection with the merger. Excess cost over tangible net assets acquired totaled \$10 million, of which \$3 million and \$7 million have been allocated to other identifiable intangible assets and goodwill, respectively. Trustmark's financial statements include the results of operations for the CSI acquisition from the merger date. The pro forma impact of this acquisition on Trustmark's results of operations is insignificant.

FINANCIAL SUMMARY HIGHLIGHTS

Basic earnings per share was \$0.55 for the third quarter of 2003, which represents a 12.2% increase compared to \$0.49 for the third quarter of 2002. Net income for the third quarter of 2003 totaled \$32.4 million, compared to \$30.1 million for the prior year period, and resulted in a return on average assets of 1.71% and a return on average equity of 19.03%. Basic earnings per share for the nine months ended September 30, 2003, was \$1.49 compared to \$1.47 for 2002. Trustmark's net income for the first nine months of 2003 totaled \$88.1 million, compared to \$91.8 million for the prior year period, and resulted in a return on average assets of 1.61% and a return on average equity of 17.58%. Earnings during the first quarter of 2003 included an after-tax charge of \$4.1 million, or \$0.07 per share, associated with Trustmark's Voluntary Early Retirement Program. At September 30, 2003, Trustmark reported total loans of \$5.024 billion, total assets of \$7.633 billion, total deposits of \$4.997 billion and shareholders' equity of \$682.1 million.

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 Yield/Rate Analysis Tables on pages 18 and 19 show 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 interest rates remain at historically low levels, Management has been challenged to position the balance sheet to mitigate the compression of net interest income. Funds provided from maturities, pay downs and sales of securities have been used to fund loan growth and purchases of additional securities to maintain sufficient levels of earning assets. Trustmark has also reduced interest expense on FHLB advances by engaging in various swap agreements beginning in the second quarter of 2003. Trustmark will continue to manage the overall risk exposure present during significant movements in interest rates and reduce the impact of interest rate movement on net interest income. For additional discussion, see Market/Interest Rate Risk Management beginning on page 29.

Net interest income-FTE for the three-month and nine-month periods ended September 30, 2003, decreased \$9.5 million, or 12.6%, and \$21.2 million, or 9.3%, respectively, compared to figures one year earlier. The continuing decline in interest rates experienced during 2003 and 2002 has impacted both assets and liabilities; however, since Trustmark's cost of funds are driven primarily by its core deposit base, rates on interest-bearing liabilities have not seen the same magnitude of decline as earning asset yields. In addition, Trustmark's third quarter net interest margin decreased by \$4.1 million as a result of premium amortization on mortgage related securities increasing to \$7.8 million for the quarter compared with \$3.7 million for the second quarter of 2003. Mortgages fell to historical lows in June 2003, prompting a significant refinance boom across the country. As excess principal pay downs occurred during the third quarter of 2003, net premium amortization accelerated. The combination of these factors has resulted in declines in the NIM of 103 basis points and 78 basis points when comparing the three-month and nine-month periods ended September 30, 2003, with the same periods in 2002.

Yield/Rate Analysis Table

(\$ in thousands)

	For the Three Months Ended September 30,					
	2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Federal funds sold and securities purchased under reverse repurchase agreements	\$ 20,535	\$ 60	1.16%	\$ 35,001	\$ 150	1.70%
Securities - taxable	1,757,429	12,065	2.72%	1,391,978	21,519	6.13%
Securities - nontaxable	154,781	3,005	7.70%	168,603	3,346	7.87%
Loans, including loans held for sale	4,933,252	72,049	5.79%	4,587,012	78,594	6.80%
Total interest-earning assets	6,865,997	87,179	5.04%	6,182,594	103,609	6.65%
Cash and due from banks	282,239			282,665		
Other assets	426,066			431,083		
Allowance for loan losses	(74,832)			(75,993)		
Total Assets	<u>\$ 7,499,470</u>			<u>\$ 6,820,349</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 3,645,418	14,167	1.54%	\$ 3,519,645	19,634	2.21%
Federal funds purchased and securities sold under repurchase agreements	929,774	2,269	0.97%	729,862	3,058	1.66%
Borrowings	918,984	4,918	2.12%	733,051	5,636	3.05%
Total interest-bearing liabilities	5,494,176	21,354	1.54%	4,982,558	28,328	2.26%
Noninterest-bearing demand deposits	1,260,135			1,089,755		
Other liabilities	69,231			74,127		
Shareholders' equity	675,928			673,909		
Total Liabilities and Shareholders' Equity	<u>\$ 7,499,470</u>			<u>\$ 6,820,349</u>		
Net Interest Margin		65,825	3.80%		75,281	4.83%
Less tax equivalent adjustment		1,994			2,188	
Net Interest Margin per Consolidated Statements of Income		<u>\$ 63,831</u>			<u>\$ 73,093</u>	

Average interest-earning assets for the first nine months of 2003 were \$6.678 billion, compared with \$6.202 billion for the first nine months of 2002, an increase of \$475.6 million, or 7.7%. Without the Emerald Coast branch purchase, the increase in average interest-earning assets for the first nine months of 2003 is \$451.8, or 7.3%. Growth for the first nine months of 2003 is primarily seen in average loans, which increased 5.5% (5.0% without Emerald Coast) when compared with the same period in 2002, and average securities, which increased 13.6% when 2003 is compared with 2002. However, yields have been negatively impacted by the declining interest rate environment as the yield on average earning assets dropped from 6.83% during the first nine months of 2002 to 5.53% for the same period in 2003, a decrease of 130 basis points. As a result, interest income-FTE decreased by \$40.5 million, or 12.8%, during the first nine months of 2003 when compared with the prior year period.

Yield/Rate Analysis Table

(\$ in thousands)

	For the Nine Months Ended September 30,					
	2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Federal funds sold and securities purchased under reverse repurchase agreements	\$ 27,063	\$ 236	1.17%	\$ 27,319	\$ 345	1.69%
Securities - taxable	1,728,241	50,610	3.92%	1,485,267	70,197	6.32%
Securities - nontaxable	157,416	9,282	7.88%	173,925	10,380	7.98%
Loans, including loans held for sale	4,765,364	216,009	6.06%	4,515,979	235,701	6.98%
Total interest-earning assets	6,678,084	276,137	5.53%	6,202,490	316,623	6.83%
Cash and due from banks	296,854			281,007		
Other assets	413,530			422,107		
Allowance for loan losses	(75,038)			(75,580)		
Total Assets	<u>\$ 7,313,430</u>			<u>\$ 6,830,024</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 3,617,219	45,882	1.70%	\$ 3,525,957	61,432	2.33%
Federal funds purchased and securities sold under repurchase agreements	965,417	8,096	1.12%	796,000	9,946	1.67%
Borrowings	788,852	14,681	2.49%	704,082	16,566	3.15%
Total interest-bearing liabilities	5,371,488	68,659	1.71%	5,026,039	87,944	2.34%
Noninterest-bearing demand deposits	1,206,457			1,063,149		
Other liabilities	65,587			66,615		
Shareholders' equity	669,898			674,221		
Total Liabilities and Shareholders' Equity	<u>\$ 7,313,430</u>			<u>\$ 6,830,024</u>		
Net Interest Margin		207,478	4.15%		228,679	4.93%
Less tax equivalent adjustment		6,261			6,866	
Net Interest Margin per Consolidated Statements of Income		<u>\$ 201,217</u>			<u>\$ 221,813</u>	

Average interest-bearing liabilities for the nine months ended September 30, 2003 totaled \$5.371 billion, compared with \$5.026 billion for the prior year period, an increase of \$345.4 million, or 6.9%. Without the Emerald Coast branch purchase, the increase in average interest-bearing liabilities for the first nine months of 2003 is \$326.7 million, or 6.5%. Average interest-bearing deposits increased, as well as federal funds purchased, repurchase agreements and borrowings. Although interest-bearing liabilities have increased, interest expense has continued to decrease due to the declining interest rate environment. The average rates on interest-bearing liabilities for the first nine months of 2003 and 2002, were 1.71% and 2.34%, respectively, a decrease of 63 basis points. As a result of these factors, total interest expense for the first nine months of 2003 decreased \$19.3 million, or 21.9%, when compared with figures from the prior year.

Trustmark's use of derivative financial instruments positively impacted the NIM in both 2002 and 2003. Interest rate contracts provided \$1.3 million of additional interest income as the floor reached its strike price during first half of 2002. Beginning in the second quarter of 2003, Trustmark implemented the use of swap agreements and has reduced interest expense by \$510 thousand. For additional discussion, see Market/ Interest Rate Risk Management beginning on page 29.

Provision for Loan Losses

Trustmark's provision for loan losses totaled \$1.8 million and \$7.4 million, respectively, for the three-month and nine-month periods ended September 30, 2003, compared with \$3.0 million and \$10.3 million, respectively, for the same periods in 2002. As a percentage of average loans, the provision was 0.21% for the first nine months of 2003 compared with 0.31% for the prior year period. The provision for loan losses reflects Management's assessment of the adequacy of the allowance for loan losses to absorb probable losses inherent in the loan portfolio. The amount of provision for each period is dependent upon many factors including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, Management's assessment of loan portfolio quality, the value of collateral and general economic factors. See further discussion of the Allowance for Loan Losses in Critical Accounting Policies beginning on page 14, as well as the discussion of Loans and Allowance for Loan Losses beginning on page 26.

Noninterest Income

Noninterest income (NII) consists of revenues generated from a broad range of banking and financial services. NII totaled \$123.2 million for the first nine months of 2003, an increase of \$18.6 million, or 17.8%, from the prior year period. NII represented 31.3% of total revenues in the nine months ended September 30, 2003, versus 25.2% in the first nine months of 2002. The comparative components of noninterest income for the nine-month periods ended September 30, 2003 and 2002 are shown in the accompanying table on page 21. Noninterest income contributed by the Emerald Coast branch purchase during the third quarter of 2003 is considered immaterial.

The single largest component of noninterest income continues to be service charges for deposit products and services, which increased 9.6% in the first nine months of 2003 over the prior year period. This increase was primarily the result of increases in NSF and overdraft charges implemented during the third quarter of 2003 as well as from increased transaction volume.

Other account charges and fees totaled \$21.0 million in the first nine months of 2003, a decrease of \$258 thousand, or 1.2%, when compared with the prior year period. Decreasing revenues from market driven products was the primary factor in this decline as reductions were seen in brokerage and advisory services and float-related revenues. Offsetting this decrease were increases in bankcard fees from the repricing of merchant discount rates and increased debit card usage by individuals.

Insurance commissions were \$16.5 million for the first nine months of 2003, compared to \$13.6 million in the first nine months of 2002, an increase of \$2.9 million, or 21.2%. This growth was primarily from the Chandler Sampson Insurance (CSI) business combination, which was completed on June 28, 2002, as well as intensified sales efforts and increased pricing by insurance companies.

During the nine months ended September 30, 2003, mortgage servicing fees totaled \$12.7 million, maintaining the level from the prior year period. Increased prepayments during the period contributed to the decline in the mortgage servicing portfolio when compared to the prior period. Trustmark serviced mortgage loans with average balances of \$3.3 billion in the first nine months of 2003 and \$3.6 billion in the prior year period.

Noninterest Income

(\$ in thousands)

	Nine Months Ended September 30,		\$ Change	% Change
	2003	2002		
Service charges on deposit accounts	\$ 40,054	\$ 36,546	\$ 3,508	9.6%
Other account charges and fees	21,028	21,286	(258)	-1.2%
Insurance commissions	16,458	13,580	2,878	21.2%
Mortgage servicing fees	12,652	12,925	(273)	-2.1%
Trust service income	7,176	7,413	(237)	-3.2%
Gains on sales of loans	14,715	6,050	8,665	143.2%
Securities gains	12,226	12,549	(323)	-2.6%
Other income:				
Changes in fair value:				
Interest rate contracts	(497)	(6,027)	5,530	91.8%
Mortgage derivative contracts	(1,857)	-	(1,857)	-
Other miscellaneous	1,217	235	982	417.9%
Total other income	(1,137)	(5,792)	4,655	80.4%
Total Noninterest Income	\$ 123,172	\$ 104,557	\$ 18,615	17.8%

Trust service income was \$7.2 million for the first nine months of 2003, a decrease of \$237 thousand when compared with the prior year period, as continued weakness in capital markets slowed growth in this area. Trustmark, which continues to be one of the largest providers of asset management services in Mississippi, held assets under administration of \$6.9 billion at September 30, 2003.

Gains on sales of loans were \$14.7 million in the nine months ended September 30, 2003, compared with \$6.1 million in the prior year period. During the second quarter of 2003, Trustmark sold \$63 million of its student loan portfolio for a gain of \$1.8 million. Intermittently, Trustmark sells delinquent GNMA loans from its servicing portfolio, which allows Trustmark to eliminate costly collection efforts. Trustmark has recorded gains of \$2.4 million from these sales in the first nine months of 2003, compared with \$1.1 million in the prior year period. Excluding the impact of these specific transactions, gains on sales of loans from secondary marketing activity experienced volume-driven growth of \$5.5 million during the first nine months of 2003 compared with the same period in 2002 from an increased volume of branch-originated loans and the continued benefit of a falling interest rate environment.

Securities gains totaled \$12.2 million during the first nine months of 2003, compared with \$12.5 million during the first nine months of 2002. During the first nine months of 2003, significant price changes in certain available for sale (AFS) portfolio securities enabled Trustmark to sell securities with a total fair value of \$290.1 million, which provided the opportunity to restructure a portion of the portfolio to reduce price volatility in an extremely low interest rate cycle. Management considers the investment portfolio as an integral tool in the management of interest rate risk.

During the nine-month period ended September 30, 2003, other income was a loss of \$1.1 million, a \$4.7 million increase from the \$5.8 million loss recognized in the prior year period. Valuation adjustments on Trustmark's interest rate caps and floors had the greatest impact on other income, with losses of \$497 thousand and \$6.0 million for the first nine months of 2003 and 2002, respectively. Although the intent of interest rate caps and floors is to provide protection against excessive interest rate movement over a

Noninterest Expense

(\$ in thousands)

	Nine Months Ended September 30,			
	2003	2002	\$ Change	% Change
Salaries and employee benefits	\$ 96,855	\$ 89,030	\$ 7,825	8.8%
Net occupancy - premises	9,541	8,863	678	7.6%
Equipment expense	11,104	11,357	(253)	-2.2%
Services and fees	23,696	23,720	(24)	-0.1%
Amortization:				
Core deposits	1,977	2,202	(225)	-10.2%
Insurance intangible	418	138	280	202.9%
Mortgage servicing rights	11,621	7,760	3,861	49.8%
Impairment of mortgage servicing rights	4,999	8,786	(3,787)	-43.1%
Total amortization/impairment	19,015	18,886	129	0.7%
Loan expense	7,155	7,314	(159)	-2.2%
Other expense	15,023	15,015	8	0.1%
Total Noninterest Expense	<u>\$ 182,389</u>	<u>\$ 174,185</u>	<u>\$ 8,204</u>	4.7%

period of years that may be detrimental to Trustmark's earnings, fair value accounting is used to carry derivative financial instruments with changes in value recognized currently in earnings as other income. These noncash charges against income may be reversed, in whole or in part, if interest rates increase prior to the expiration of the interest rate caps currently held by Trustmark, which expire in 2006. The fair value of these interest rate contracts was \$233 thousand and \$683 thousand at September 30, 2003 and 2002, respectively. In addition, valuation adjustments on fair value hedges used in conjunction with Trustmark's mortgage servicing portfolio were a loss of \$1.9 million in the first nine months of 2003.

Noninterest Expense

Trustmark's noninterest expense increased \$8.2 million, or 4.7%, in the first nine months of 2003 to \$182.4 million, compared with \$174.2 million in the first nine months of 2002. This increase is primarily seen in one category, salaries and employee benefits. Noninterest expense contributed by the Emerald Coast branch purchase during the third quarter of 2003 is considered immaterial. The comparative components of noninterest expense for the nine months ended September 30, 2003 and 2002 are shown in the accompanying table.

Salaries and employee benefits, the largest category of noninterest expense, were \$96.9 million in the first nine months of 2003 and \$89.0 million in the prior year period, an increase of \$7.8 million, or 8.8%. This increase is primarily from \$6.3 million of expense recognized for Trustmark's early retirement program, which was accepted by 116 employees, or 4.75% of the workforce, and an increase in incentive pay based on mortgage production. Trustmark's full time equivalent employees have dropped from 2,450 at September 30, 2002 to 2,365 at September 30, 2003.

Amortization/impairment expense associated with intangible assets totaled \$19.0 million for the first nine months of 2003, compared with \$18.9 million in the prior year period. Amortization/impairment expense of mortgage servicing rights is the primary component of this category. For 2003, total amortization/impairment expense for mortgage servicing rights was \$16.6 million, or \$11.6 million in amortization expense and \$5.0 million in impairment. For 2002, total amortization/impairment expense

for mortgage servicing rights was also \$16.6 million but was broken down into \$7.8 million in amortization expense and \$8.8 million in impairment. While amortization/impairment expense has remained the same for both periods, there are recent positive trends that have slowed the growth of both amortization and impairment of mortgage servicing rights. During the third quarter of 2003, long-term mortgage rates increased to the highest point in 2003, which slowed prepayments of mortgage loans and had a positive impact on the fair value of Trustmark's mortgage servicing portfolio. This can be seen by a reduction in the impairment allowance from \$22.4 million at June 30, 2003 to \$17.5 million at September 30, 2003. While amortization of mortgage servicing rights increased by \$3.9 million as a result of increased refinancings during the first nine months of 2003, third quarter amortization expense decreased to \$2.9 million from \$4.7 million in the second quarter of 2003 indicating that the expected life of the mortgage servicing portfolio has lengthened in response to slower prepayment speeds. Future changes in the amortization and impairment of mortgage servicing rights will be continue to be closely tied to fluctuations in long-term mortgage rates.

Income Taxes

For the nine months ended September 30, 2003, Trustmark's combined effective tax rate was 34.6%, compared with 35.3% for the first nine months of 2002. The decrease in Trustmark's effective tax rate is due to immaterial changes in various permanent items as a percentage of pretax income.

LIQUIDITY

The liquidity position of Trustmark is monitored on a daily basis by Trustmark's Treasury department. In addition, the Asset/Liability Committee reviews liquidity on a regular basis and approves any changes in strategy that are necessary as a result of anticipated balance sheet or cash flow changes. Also, on a monthly basis, Management compares Trustmark's liquidity position to established corporate policies. Trustmark was able to improve overall liquidity capacity over the last year, as indicated by the reduction in the loan to deposit ratio and reliance on wholesale funding. The ability to maintain consistent cash flows from operations as well as adequate capital also enhances Trustmark's liquidity.

The primary source of liquidity on the asset side of the balance sheet are maturities and cash flows from both loans and securities, as well as the ability to sell certain loans and securities. With mortgage rates at historical lows, increased prepayments on mortgage loans have also provided an additional source of liquidity for Trustmark. Liquidity on the liability side of the balance sheet is generated primarily through growth in core deposits. To provide additional liquidity, Trustmark utilizes economical short-term wholesale funding arrangements for federal funds purchased and securities sold under repurchase agreements in both regional and national markets. At September 30, 2003, these arrangements gave Trustmark approximately \$1.675 billion in borrowing capacity, compared with \$1.482 billion as of December 31, 2002. In addition, Trustmark maintains a borrowing relationship with the FHLB, which provided \$300.0 million in short-term advances and \$431.1 million in long-term advances at September 30, 2003, compared with \$107.7 million in short-term advances and \$475.0 million in long-term advances at December 31, 2002. These advances are collateralized by a blanket lien on Trustmark's single-family, multi-family, home equity and commercial mortgage loans. Under the existing borrowing agreement, Trustmark has \$604.5 million available in unused FHLB advances. Another borrowing source is the Federal Reserve Discount Window (Discount Window). At September 30, 2003, Trustmark had approximately \$532 million available in borrowing capacity at the Discount Window from pledges of auto loans and securities, compared with \$541 million available at December 31, 2002. In June 2002, Trustmark entered into a two-year line of credit arrangement enabling borrowings up to \$50 million, subject to certain financial covenants. As of September 30, 2003, Trustmark had not drawn upon this line of credit.

On April 16, 2003, Trustmark filed a registration statement on Form S-3 with the Securities and

Exchange Commission (SEC) utilizing a “shelf” registration process, which became effective May 2, 2003. Under this shelf process, Trustmark may offer from time to time any combination of securities described in the prospectus in one or more offerings up to a total amount of \$200 million. The securities described in the prospectus include common and preferred stock, depositary shares, debt securities, junior subordinated debt securities and trust preferred securities. Net proceeds from the sale of the offered securities may be used to redeem or repurchase outstanding securities, repay outstanding debt, finance acquisitions of companies and other assets and provide working capital.

On April 9, 2002, the shareholders approved a proposal by the Board of Directors to amend the Articles of Incorporation to authorize the issuance of up to 20 million preferred shares with no par value. The Board of Directors believes that authorizing preferred shares for potential issuance is advisable and in the best interests of Trustmark. The ability to issue preferred shares in the future will provide Trustmark with additional financial and management flexibility. As of September 30, 2003, no such shares have been issued.

CAPITAL RESOURCES

At September 30, 2003, Trustmark’s shareholders’ equity was \$682.1 million, an increase of \$2.6 million, or 0.4%, from its level at December 31, 2002. This increase is primarily related to net income for the nine months ended September 30, 2003, which totaled \$88.1 million and was offset by dividends in the amount of \$29.2 million and shares repurchased at a cost of \$51.2 million.

Common Stock Repurchase Program

On July 15, 2003, the Board of Directors of Trustmark authorized an additional plan to repurchase up to 5% of common stock, or approximately 3.0 million shares, subject to market conditions and management discretion. Collectively, the capital management plans adopted by Trustmark since 1998 have authorized the repurchase of 21.5 million shares of common stock. Pursuant to these plans, Trustmark has repurchased approximately 17.7 million shares for \$376.8 million, including 2.1 million shares during the first nine months of 2003 for \$51.2 million. The current remaining authorization is approximately 3.8 million shares. On October 15, 2002, the Board of Directors of Trustmark authorized the transfer of \$200.0 million from retained earnings to surplus to replenish funds used in the common stock repurchase program.

Dividends

Dividends for the first nine months of 2003 were \$0.495 per share, increasing 10.0% when compared with dividends of \$0.45 per share for the prior-year period. Trustmark’s dividend payout ratio, which is dividends per share divided by earnings per share, was 33.22% for the first nine months of 2003, compared with 30.61% for the same period in 2002. During October 2003, the Board of Directors of Trustmark announced a 15.2% increase in its regular quarterly dividend to \$0.19 per share from \$0.165 per share. The Board declared the dividend payable on December 15 to the shareholders of record as of December 1, 2003. This action raises the indicated annual dividend rate to \$0.76 per share from \$0.66 per share.

Regulatory Capital
(\$ in thousands)

	September 30, 2003					
	Actual Regulatory Capital		Minimum Regulatory Capital Required		Minimum Regulatory Provision to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	\$617,903	12.21%	\$404,740	8.00%	-	-
Trustmark National Bank	580,389	11.72%	396,116	8.00%	\$495,145	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	\$554,524	10.96%	\$202,370	4.00%	-	-
Trustmark National Bank	518,371	10.47%	198,058	4.00%	\$297,087	6.00%
Tier 1 Capital (to Average Assets)						
Trustmark Corporation	\$554,524	7.52%	\$221,269	3.00%	-	-
Trustmark National Bank	518,371	7.17%	217,035	3.00%	\$361,726	5.00%

Regulatory Capital

Trustmark and TNB are subject to minimum capital requirements, which are administered by various federal regulatory agencies. These capital requirements, as defined by federal guidelines, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the financial statements of both Trustmark and TNB. Trustmark aims not only to exceed the minimum capital standards, but also the well capitalized guidelines for regulatory capital. Management believes, as of September 30, 2003, that Trustmark and TNB have met or exceeded all of the minimum capital standards for the parent company and its primary banking subsidiary as established by regulatory requirements. At September 30, 2003, the most recent notification from the Office of the Comptroller of the Currency (OCC), TNB's primary federal banking regulator, categorized TNB as well capitalized. To be categorized in this manner, TNB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios (defined in applicable regulations) as set forth in the accompanying table. There are no significant conditions or events that have occurred since the OCC's notification that Management believes have affected TNB's present classification.

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. At September 30, 2003, earning assets were \$6.962 billion, or 91.20% of total assets, compared with \$6.453 billion, or 90.40% of total assets at December 31, 2002, an increase of \$508.6 million, or 7.9%. Excluding the Emerald Coast branch purchase, earning assets totaled \$6.739 billion, an increase of \$286.2 million when compared with December 31, 2002.

Securities

The securities portfolio consists primarily of debt securities, which are utilized to provide Trustmark with a quality investment alternative and a stable source of interest income, as well as collateral for pledges on public deposits and repurchase agreements. Additionally, the securities portfolio is used as a tool to manage risk from movements in interest rates, to support profitability and to offset risks incurred by business units. When evaluating the performance of the securities portfolio, Management considers not only interest income but also the flexibility and liquidity provided by changes in fair value. At September 30, 2003, Trustmark's securities portfolio totaled \$1.878 billion, compared to \$1.812 billion at December 31, 2002, an increase of \$66.3 million, or 3.7%.

The securities portfolio is a powerful risk management tool that enables Management to control both the invested balance and the duration of securities. In addition to first quarter 2003 sales of \$99.1 million of securities, significant price changes in certain portfolio securities enabled Trustmark to sell securities with a total fair value of \$189.0 million during the second quarter of 2003. Approximately \$137.8 million of proceeds from the second quarter securities sales were reinvested in short-term treasury and agency securities. Trustmark has utilized a strategy of reducing price volatility in the investment portfolio as indicated by duration, which has remained relatively stable throughout 2003. The estimated duration of the portfolio was measured to be 2.83 years at December 31, 2001, 1.94 years at December 31, 2002, and 2.04 years at September 30, 2003. By reducing the duration of the portfolio, Trustmark has reduced exposure to volatile interest rates while increasing liquidity and flexibility. Management intends to keep the portfolio near historically low duration levels while the interest rate cycle is in a stage of lower yields.

AFS securities are carried at their estimated fair value with unrealized gains or losses recognized, net of taxes, in accumulated other comprehensive income, a separate component of shareholders' equity. At September 30, 2003, AFS securities totaled \$1.677 billion, which represented 89.3% of the securities portfolio, compared to \$1.263 billion, or 69.7%, at December 31, 2002. At September 30, 2003, unrealized gains on AFS securities of \$6.0 million, net of \$2.3 million of deferred income taxes payable, were included in accumulated other comprehensive income, compared with gains of \$22.8 million, net of \$8.7 million in income taxes, at December 31, 2002. At September 30, 2003, AFS securities consisted of U.S. Treasury and Agency securities, obligations of states and political subdivisions, mortgage related securities, corporate securities and other securities, primarily Federal Reserve Bank and FHLB stock. During the third quarter, an allocation of corporate securities was added to AFS securities as an investment alternative that produces an attractive return and, at the same time, reduces exposure to mortgage related securities while also reducing reliance on issues of the various government agencies. This group currently consists of well-diversified investment grade corporate securities with a book value of \$78.9 million and a noncallable average maturity of 4.5 years. Management expects to continue this strategy as an ongoing part of a diversified investment approach in the securities portfolio.

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 September 30, 2003, HTM securities totaled \$201.1 million and represented 10.7% of the total portfolio, compared with \$549.2 million, or 30.3%, at the end of 2002. This decline in HTM securities as a percentage of the securities portfolio should continue as Management utilizes the increased flexibility in AFS securities to manage its investment strategy.

Management continues to focus on asset quality as one of the strategic goals of the securities portfolio, which is evidenced by the investment of over 90% of the portfolio in U.S. Treasury, U.S. Government agencies obligations and other AAA rated securities.

Loans and Allowance for Loan Losses

Loans, including loans held for sale, represented 72.2% of earning assets at September 30, 2003, compared with 71.6% at year-end 2002. At September 30, 2003, loans totaled \$5.024 billion, an 8.8% increase from its level of \$4.617 billion at December 31, 2002. Excluding the Emerald Coast branch purchase, loan growth was \$184.4 million, or 4.0%. Real estate lending continued to be positively impacted by record low interest rates while other loan areas have been negatively affected by a weakened economy.

Trustmark makes loans in the normal course of business to certain directors, including 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

Nonperforming Assets

(\$ in thousands)

	September 30, 2003	December 31, 2002
Nonaccrual and restructured loans	\$ 26,857	\$ 31,642
Other real estate (ORE)	6,434	6,298
Total nonperforming assets	<u>\$ 33,291</u>	<u>\$ 37,940</u>
Accruing loans past due 90 days or more	<u>\$ 3,283</u>	<u>\$ 2,946</u>
Nonperforming assets/total loans and ORE	<u>0.66%</u>	<u>0.82%</u>

transactions with unrelated persons and do not involve more than the normal risk of collectibility at the time of the transaction.

Trustmark's lending policies have resulted in consistently sound asset quality. One measure of asset quality in the financial services industry is the level of nonperforming assets. The details of Trustmark's nonperforming assets at September 30, 2003 and December 31, 2002, are shown in the accompanying table.

Total nonperforming assets decreased \$4.6 million, or 12.25%, during the first nine months of 2003. This decrease can be attributed to a concerted effort to address problem loans as well as approximately \$1.4 million of loans returned to accrual status as the result of an intensified review of nonaccrual loans less than \$100 thousand. The allowance coverage of nonperforming loans remains strong at 277.3% at September 30, 2003, compared with 236.3% at December 31, 2002.

At September 30, 2003, the allowance for loan losses was \$74.5 million compared with \$74.8 million at December 31, 2002. The allowance for loan losses represented 1.48% of total loans outstanding at September 30, 2003, compared to 1.62% at December 31, 2002. This decline in the allowance as a percentage of total loans is linked primarily to an increase in loans resulting from the Emerald Coast branch purchase. Loans purchased totaled \$224.3 million which included a \$1.9 million discount, consisting of a discount for general credit risk of \$3.5 million offset by a market premium of \$1.6 million. As of September 30, 2003, Management believes that the allowance for loan losses provides adequate protection in regards to charge-off experience and the current level of nonperforming assets.

Net charge-offs were \$7.7 million, or 0.22% of average loans, for the nine months ended September 30, 2003, compared with \$10.3 million, or 0.31% of average loans, for the prior year period. This improvement is primarily from gross charge-offs of commercial purpose loans, which decreased \$2.5 million when comparing the first nine months of 2003 and 2002. Charge-offs for the first nine months of 2002 were affected by five larger commercial loan losses totaling \$2.6 million.

Other Earning Assets

Federal funds sold and securities purchased under reverse repurchase agreements were \$59.5 million at September 30, 2003, an increase of \$35.5 million when compared with year-end 2002. Trustmark utilizes these products as a short-term investment alternative whenever it has excess liquidity.

DEPOSITS AND OTHER INTEREST-BEARING LIABILITIES

Trustmark's deposit base is its primary source of funding and consists of core deposits from the communities served by Trustmark. Deposits include interest-bearing and noninterest-bearing demand accounts, savings, money market, certificates of deposits, individual retirement accounts and brokered CD's. Total deposits were \$4.997 billion at September 30, 2003, compared with \$4.686 billion at December 31, 2002, an increase of \$310.7 million, or 6.6%. Excluding the Emerald Coast branch purchase, deposits increased \$100.8 million, or 2.2%, when compared with December 31, 2002. Trustmark's deposit mix remains favorable with noninterest-bearing deposits representing 25.1% of total deposits at September 30, 2003, compared with 26.7% at year-end 2002. During the third quarter of 2003 Trustmark utilized a brokered CD program to provide additional low cost deposit funding. Trustmark will continue to seek deposits by expanding its presence in higher growth markets and evaluating additional wholesale deposit funding sources.

Short-term borrowings consist of federal funds purchased, securities sold under repurchase agreements, FHLB borrowings and the treasury tax and loan note option account. Short-term borrowings totaled \$1.460 billion at September 30, 2003, an increase of \$228.9 million, compared with \$1.231 billion at year-end 2002. An increase in term federal funds purchased and short-term FHLB advances were the primary contributors to this growth as Management sought funding from lower priced short-term borrowings during this historically low interest rate environment

Long-term FHLB advances totaled \$431.1 million at September 30, 2003, a decrease of \$43.9 million from December 31, 2002. These totals include \$250.0 million in advances with variable rates adjusting quarterly, while the remaining advances are fixed rate, primarily maturing from 2005 to 2006. Beginning in the second quarter of 2003, Trustmark implemented the use of swap agreements and has effectively converted \$125.0 million of the fixed rate advances to variable rates. For further discussion, see Market/Interest Rate Risk Management beginning on page 29.

OTHER LIABILITIES

At December 31, 2002, Trustmark's pension plan was underfunded, requiring an accrual for minimum pension liability of \$5.7 million. During 2003, the Board of Directors approved tax-deductible contributions to the pension plan in the amount of \$10.0 million. At the plan's next measurement date, October 31, 2003, Management anticipates that the underfunded position of the plan will be eliminated based on recent improvements in investment returns combined with the contributions of \$10 million.

CONTINGENCIES

Trustmark and its subsidiaries are parties to lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to the lending, collection, servicing, investment, trust and other business activities; and some of the lawsuits allege substantial claims for damages. The cases are being vigorously contested. In the regular course of business, Management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever Management believes that such losses are probable and can be reasonably estimated. In recent years, the legal environment in Mississippi has been considered by many to be adverse to business interests in regards to the overall treatment of tort and contract litigation as well as the award of punitive damages. However, tort reform legislation that became effective January 1, 2003, may reduce the likelihood of unexpected sizable awards. At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that the final resolution of pending legal proceedings will not have a material impact on Trustmark's consolidated financial position or results of operations.

ASSET/LIABILITY MANAGEMENT

Overview

Market risk is the risk of loss arising from adverse changes in market prices and rates. Trustmark has risk management policies to monitor and limit exposure to market risk. Trustmark's market risk is comprised primarily of interest rate risk created by core banking activities. Interest rate risk is the risk to net interest income represented by the impact of higher or lower interest rates. Management continually develops and applies cost-effective strategies to manage these risks. The Asset/Liability Committee sets the day-to-day operating guidelines, approves strategies affecting net interest income and coordinates activities within policy limits established by the Board of Directors. A key objective of the asset/liability management program is to quantify, monitor and manage interest rate risk and to assist Management in maintaining stability in the net interest margin under varying interest rate environments.

Market/Interest Rate Risk Management

The primary purpose in managing interest rate risk is to invest capital effectively and preserve the value created by the core banking business. This is accomplished through the development and implementation of lending, funding, pricing and hedging strategies designed to maximize net interest income performance under varying interest rate environments subject to specific liquidity and interest rate risk guidelines.

Management has continued to maintain a balance sheet position that mitigates adverse effects of rising interest rates. Modeling static balances from September 30, 2003, it is estimated that net interest income may increase, possibly as much as 4.33%, in a one-year, shocked, up 200 basis point rate shift scenario, compared to a base case, flat rate scenario for the same time period. This is a slight improvement in exposure to rising rates when compared to December 31, 2002. In a shocked, down 200 basis point rate shift scenario, net income may decline from the base case as much as 12.82% in a one-year horizon. In this scenario, Trustmark uses the approach of shifting rates the greater of 200 basis points or the amount that implies a near zero rate for each category. Management cannot provide any assurance about the actual effect of changes in interest rates on net interest income. The estimates provided do not include the effects of possible strategic changes in the balances of various assets and liabilities throughout the remainder of 2003. Management will continue to monitor the balance sheet as balances change and maintain a proactive stance to manage interest rate risk.

The primary tool utilized by the Asset/Liability Committee is a third-party modeling system, which is widely accepted in the financial institutions industry. This system provides information used to evaluate exposure to interest rate risk, project earnings and manage balance sheet growth. This modeling system utilizes the following scenarios in order to give Management a method of evaluating Trustmark's interest rate, basis and prepayment risk under different conditions:

- ❖ Rate shocked scenarios of up-and-down 100, 200 and 300 basis points.
- ❖ Yield curve twist of +/- 2 standard deviations of the change in spread of the three-month Treasury bill and the 10-year Treasury note yields.
- ❖ Basis risk scenarios where federal funds/LIBOR spread widens and tightens to the high and low spread determined by using 2 standard deviations.
- ❖ Prepayment risk scenarios where projected prepayment speeds in up-and-down 200 basis point rate scenarios are compared to current projected prepayment speeds.

A static gap analysis is a tool used mainly for interest rate risk measurement, in which the balance sheet amounts as of a certain date are stratified based on repricing frequency. The assets and liabilities repricing in a certain time frame are then compared to determine the gap between assets and liabilities for that period. If assets are greater than liabilities for the specified time period, then the balance sheet is said to be in an asset gap, or asset sensitive, position. Management feels that this method for analyzing

interest rate sensitivity does not provide a complete picture of Trustmark's exposure to interest rate changes since it illustrates a point-in-time measurement and, therefore, does not incorporate the effects of future balance sheet trends or varying interest rate scenarios. This analysis is a relatively straightforward tool that is helpful in highlighting significant short-term repricing volume mismatches. Management's assumptions related to the prepayment of certain loans and securities, as well as the maturity for rate sensitive assets and liabilities, are utilized for sensitivity static gap analysis. Three-month gap analysis projected at September 30, 2003, reflected a liability gap of \$199 million compared with an asset gap of \$177 million at June 30, 2003. One-year gap analysis projected at September 30, 2003, reflected an asset gap of \$47 million compared with an asset gap of \$548 million at June 30, 2003. These changes can be traced to a reduction in mortgage work-in-process when compared with June 30, 2003 as well as Management's decision to reinvest FHLB advances in floating rather than fixed rates, thus lowering the overall cost and providing relief to the compression of net interest income.

As part of Trustmark's risk management strategy in the mortgage banking area, various derivative instruments such as interest rate lock commitments and forward sales contracts are utilized. Forward contracts are agreements to purchase or sell securities or other money market instruments at a future specified date at a specified price or yield. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. Effective January 1, 2003, Trustmark has redesignated these derivative instruments as fair value hedges as permitted by Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivatives Instruments and Hedging Activities," as amended. Under SFAS No. 133, changes in the values of derivatives designated as fair value hedges are recognized in earnings. In this case Trustmark would recognize changes in the values of the designated derivatives in earnings simultaneously with changes in the values of the designated hedged loans. To the extent changes in the values of the derivatives are 100% effective in offsetting changes in the values of hedged loans, the fair value adjustments on the derivatives and hedged loans would offset one another. In contrast, Trustmark's previous designation of these derivatives as cash flow hedges resulted in changes in value being recognized in accumulated other comprehensive income, net of taxes, a component of Shareholders' Equity, and in earnings. Management anticipates that this change will help mitigate the potential for earnings volatility related to the valuation of these hedging instruments in the future.

Trustmark continued a risk controlling strategy utilizing caps and floors, which may be further implemented over time. As of September 30, 2003, Trustmark was not utilizing interest rate floors but had interest rate cap contracts with notional amounts totaling \$300 million, which mature in 2006. The intent of utilizing these financial instruments is to reduce the risk associated with the effects of significant movements in interest rates. Caps and floors, which are not designated as hedging instruments for accounting purposes, are options linked to a notional principal amount and an underlying indexed interest rate. Exposure to loss on these options will increase or decrease as interest rates fluctuate.

Another tool used for interest rate risk management is interest rate swaps. Interest rate swaps are derivative contracts under which two parties agree to make interest payments on a notional principal amount. In a generic swap, one party pays a fixed interest rate and receives a floating interest rate while the other party receives a fixed interest rate and pays a floating interest rate. During April 2003, Trustmark initiated four separate interest rate swaps with a total notional principal amount of \$100 million. During July 2003, Trustmark added another interest rate swap with a notional principal amount of \$25 million. These swaps are designated as fair value hedges. Trustmark initiated these swaps to mitigate the effects of further changes in the fair value of specific noncallable, nonprepayable, fixed rate advances from the FHLB by agreeing to pay a floating interest rate tied to LIBOR. The swap contracts are tied to the maturity of five separate FHLB advances maturing between 2005 and 2006.

RECENT PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement applies to three categories of freestanding financial instruments: 1) certain mandatorily redeemable instruments, 2) instruments with repurchase obligations and 3) instruments with obligations to issue a variable number of shares. The statement requires that previously issued instruments that fall within the scope of the statement must be reclassified as liabilities, and subsequent changes in the measurements of the instruments treated as liabilities must flow through to the income statement. For public companies, this statement became effective for all freestanding financial instruments entered into or modified after May 31, 2003. Otherwise it became effective at the beginning of the first interim period beginning after June 15, 2003. Currently, Trustmark does not have any financial instruments within the scope of this statement.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The effects of this statement did not have a material impact on Trustmark's consolidated financial position or results of operations upon adoption on June 30, 2003.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is included in "Market/Interest Rate Risk Management" (pages 29-30) of "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 4. CONTROLS AND PROCEDURES

For the period ended September 30, 2003, Trustmark evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (Exchange Act), under the supervision and with the participation of its management, including the Chief Executive Officer and the Treasurer (the Principal Financial Officer). Based upon this evaluation, the Chief Executive Officer and the Treasurer concluded that, as of September 30, 2003, Trustmark's disclosure controls and procedures were adequate to ensure that information required to be disclosed by Trustmark in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Subsequent to this review, there have been no significant changes in Trustmark's internal controls or in other factors that could significantly affect these controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no material developments for the quarter ended September 30, 2003, other than those disclosed in the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of this Form 10-Q.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

The exhibits listed in the Exhibit Index are filed herewith or are incorporated herein by reference.

B. Reports on Form 8-K

1. On July 15, 2003, Trustmark filed a report on Form 8-K announcing its financial results for the period ended June 30, 2003.
2. On September 2, 2003, Trustmark filed a report on Form 8-K announcing that the purchase of Florida's Emerald Coast branches of The Bank had been completed as of the close of business Friday, August 29, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TRUSTMARK CORPORATION

BY: /s/ Richard G. Hickson
Richard G. Hickson
Chairman of the Board, President
& Chief Executive Officer

BY: /s/ Zach L. Wasson
Zach L. Wasson
Treasurer (Principal
Financial Officer)

DATE: November 10, 2003

DATE: November 10, 2003

EXHIBIT INDEX

- 31-a Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31-b Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32-a Certification by Chief Executive Officer pursuant to 18 U.S.C. ss. 1350.
- 32-b Certification by Chief Financial Officer pursuant to 18 U.S.C. ss. 1350.

All other exhibits are omitted, as they are inapplicable or not required by the related instructions.

**CERTIFICATION BY
CHIEF EXECUTIVE OFFICER
TRUSTMARK CORPORATION AND SUBSIDIARIES
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Richard G. Hickson, certify that:

- 1) I have reviewed this Form 10-Q of Trustmark Corporation and Subsidiaries;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

BY: /s/ Richard G. Hickson
Richard G. Hickson
Chairman of the Board, President
& Chief Executive Officer

DATE: November 10, 2003

**CERTIFICATION BY
CHIEF FINANCIAL OFFICER
TRUSTMARK CORPORATION AND SUBSIDIARIES
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Zach L. Wasson, certify that:

- 1) I have reviewed this Form 10-Q of Trustmark Corporation and Subsidiaries;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

BY: /s/ Zach L. Wasson
Zach L. Wasson
Treasurer (Principal
Financial Officer)

DATE: November 10, 2003

**CERTIFICATION BY
CHIEF EXECUTIVE OFFICER
TRUSTMARK CORPORATION AND SUBSIDIARIES
PURSUANT TO 18 U.S.C. ss. 1350**

I, Richard G. Hickson, Chairman of the Board, President & Chief Executive Officer of Trustmark Corporation and Subsidiaries (Trustmark), hereby certify that the accompanying report on Form 10-Q (Report) for the period ending September 30, 2003, and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13(a) of the Securities Exchange Act of 1934 by Trustmark, fully complies with the requirements of that section.

I further certify that the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of Trustmark.

BY: /s/ Richard G. Hickson
 Richard G. Hickson
 Chairman of the Board, President
 & Chief Executive Officer

DATE: November 10, 2003

**CERTIFICATION BY
CHIEF FINANCIAL OFFICER
TRUSTMARK CORPORATION AND SUBSIDIARIES
PURSUANT TO 18 U.S.C. ss. 1350**

I, Zach L. Wasson, Treasurer of Trustmark, hereby certify that the accompanying report on Form 10-Q (Report) for the period ending September 30, 2003, and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13(a) of the Securities Exchange Act of 1934 by Trustmark, fully complies with the requirements of that section.

I further certify that the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of Trustmark.

BY: /s/ Zach L. Wasson
Zach L. Wasson
Treasurer (Principal
Financial Officer)

DATE: November 10, 2003