

TRUSTMARK CORP  
Form 10-Q  
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

or

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

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

Commission file number 000-03683

Trustmark Corporation

(Exact name of registrant as specified in its charter)

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

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

(601) 208-5111

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, there were 67,741,411 shares outstanding of the registrant’s common stock (no par value).

## Forward-Looking Statements

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

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

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

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Trustmark Corporation and Subsidiaries

## Consolidated Balance Sheets

(\$ in thousands)

	(Unaudited)	
	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and due from banks (noninterest-bearing)	\$318,329	\$327,706
Federal funds sold and securities purchased under reverse repurchase agreements	6,900	500
Securities available for sale (at fair value)	2,447,688	2,356,682
Securities held to maturity (fair value: \$1,142,285-2017; \$1,157,046-2016)	1,139,754	1,158,643
Loans held for sale (LHFS)	203,652	175,927
Loans held for investment (LHFI)	8,296,045	7,851,213
Less allowance for loan losses, LHFI	76,184	71,265
Net LHFI	8,219,861	7,779,948
Acquired loans	314,910	272,247
Less allowance for loan losses, acquired loans	7,423	11,397
Net acquired loans	307,487	260,850
Net LHFI and acquired loans	8,527,348	8,040,798
Premises and equipment, net	182,315	184,987
Mortgage servicing rights	82,628	80,239
Goodwill	379,627	366,156
Identifiable intangible assets, net	19,422	20,680
Other real estate	49,958	62,051
Other assets	551,517	577,964
<b>Total Assets</b>	<b>\$13,909,138</b>	<b>\$13,352,333</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$3,092,915	\$2,973,238
Interest-bearing	7,330,476	7,082,774
Total deposits	10,423,391	10,056,012
Federal funds purchased and securities sold under repurchase agreements	508,068	539,817
Short-term borrowings	1,222,592	769,778
Long-term FHLB advances	978	251,049
Junior subordinated debt securities	61,856	61,856
Other liabilities	130,335	153,613
<b>Total Liabilities</b>	<b>12,347,220</b>	<b>11,832,125</b>
<b>Shareholders' Equity</b>		

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Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,740,901 shares - 2017; 67,628,618 shares - 2016	14,114	14,091
Capital surplus	367,075	366,563
Retained earnings	1,209,238	1,185,352
Accumulated other comprehensive loss, net of tax	(28,509 )	(45,798 )
Total Shareholders' Equity	1,561,918	1,520,208
Total Liabilities and Shareholders' Equity	\$13,909,138	\$13,352,333

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Income

(\$ in thousands except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2016	June 30,	2016
	2017		2017	2016
<b>Interest Income</b>				
Interest and fees on LHFS & LHFI	\$84,988	\$73,745	\$164,395	\$146,031
Interest and fees on acquired loans	6,263	8,051	11,452	15,073
Interest on securities:				
Taxable	19,377	19,402	38,574	39,488
Tax exempt	766	929	1,611	1,902
Interest on federal funds sold and securities purchased under reverse				
repurchase agreements	11	4	12	5
Other interest income	371	200	638	430
<b>Total Interest Income</b>	<b>111,776</b>	<b>102,331</b>	<b>216,682</b>	<b>202,929</b>
<b>Interest Expense</b>				
Interest on deposits	5,107	3,122	9,052	6,160
Interest on federal funds purchased and securities sold under repurchase				
agreements	1,037	404	1,735	835
Other interest expense	3,628	2,428	6,301	4,817
<b>Total Interest Expense</b>	<b>9,772</b>	<b>5,954</b>	<b>17,088</b>	<b>11,812</b>
<b>Net Interest Income</b>	<b>102,004</b>	<b>96,377</b>	<b>199,594</b>	<b>191,117</b>
Provision for loan losses, LHFI	2,921	2,596	5,683	4,839
Provision for loan losses, acquired loans	(2,564 )	607	(4,169 )	1,916
<b>Net Interest Income After Provision for Loan Losses</b>	<b>101,647</b>	<b>93,174</b>	<b>198,080</b>	<b>184,362</b>
<b>Noninterest Income</b>				
Service charges on deposit accounts	10,755	11,051	21,587	22,132
Bank card and other fees	7,370	7,436	13,870	14,354
Mortgage banking, net	9,008	6,721	19,193	15,420
Insurance commissions	9,745	9,638	18,957	18,231
Wealth management	7,674	8,009	15,087	15,416
Other, net	5,637	1,372	7,528	2,260
Security gains (losses), net	1	—	1	(310 )
<b>Total Noninterest Income</b>	<b>50,190</b>	<b>44,227</b>	<b>96,223</b>	<b>87,503</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	59,060	67,018	116,362	124,219
Defined benefit plan termination	17,644	—	17,644	—
Services and fees	15,009	14,522	30,341	28,997
Net occupancy - premises	6,210	5,928	12,448	12,116

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Equipment expense	6,162	5,896	12,160	11,990
Other real estate expense	383	1,193	2,142	1,374
FDIC assessment expense	2,686	2,959	5,326	5,770
Other expense	14,921	12,663	27,709	24,657
Total Noninterest Expense	122,075	110,179	224,132	209,123
Income Before Income Taxes	29,762	27,222	70,171	62,742
Income taxes	5,727	5,719	14,888	14,236
Net Income	\$24,035	\$21,503	\$55,283	\$48,506
Earnings Per Share				
Basic	\$0.35	\$0.32	\$0.82	\$0.72
Diluted	\$0.35	\$0.32	\$0.81	\$0.72
Dividends Per Share				
	\$0.23	\$0.23	\$0.46	\$0.46

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Comprehensive Income

(\$ in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income per consolidated statements of income	\$24,035	\$21,503	\$55,283	\$48,506
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on available for sale securities and transferred securities:				
Net unrealized holding gains (losses) arising during the period	2,832	5,787	4,243	27,612
Less: adjustment for net (gains) losses realized in net income	(1 )	—	(1 )	191
Change in net unrealized holding loss on securities transferred to held to maturity	734	1,836	1,495	3,518
Pension and other postretirement benefit plans:				
Net change in prior service costs	38	39	77	77
Recognized net loss due to lump sum settlement	—	1,388	—	1,649
Change in net actuarial loss	482	540	968	1,085
Recognized net loss due to defined benefit plan termination	10,492	—	10,492	—
Derivatives:				
Change in the accumulated gain (loss) on effective cash flow hedge derivatives	(129 )	(277 )	(94 )	(1,097 )
Less: adjustment for loss realized in net income	48	96	109	195
Other comprehensive income (loss), net of tax	14,496	9,409	17,289	33,230
Comprehensive income	\$38,531	\$30,912	\$72,572	\$81,736

See notes to consolidated financial statements.



Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

(\$ in thousands)

(Unaudited)

	2017	2016
Balance, January 1,	\$1,520,208	\$1,473,057
Net income per consolidated statements of income	55,283	48,506
Other comprehensive income (loss), net of tax	17,289	33,230
Common stock dividends paid	(31,397 )	(31,301 )
Common stock issued-net, long-term incentive plan	(1,639 )	(949 )
Repurchase and retirement of common stock	—	(750 )
Excess tax expense from stock-based compensation arrangements	—	(126 )
Compensation expense, long-term incentive plan	2,174	1,800
Balance, June 30,	\$1,561,918	\$1,523,467

See notes to consolidated financial statements.