

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,<br>2017    | December<br>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<br>Ended June 30, |          | Six Months Ended<br>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<br>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<br>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<br>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.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(\$ in thousands)

(Unaudited)

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2017                         | 2016       |
| <b>Operating Activities</b>   |                              |            |
| Net income per consolidated statements of income                                  | \$55,283                     | \$48,506   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |            |
| Provision for loan losses, net  | 1,514                        | 6,755      |
| Depreciation and amortization   | 18,729                       | 17,679     |
| Net amortization of securities  | 5,375                        | 4,273      |
| Securities gains (losses), net  | (1 )                         | 310        |
| Gains on sales of loans, net  | (8,550 )                     | (8,071 )   |
| Deferred income tax provision (benefit)   | 4,200                        | (2,100 )   |
| Proceeds from sales of loans held for sale  | 565,150                      | 598,752    |
| Purchases and originations of loans held for sale                                 | (588,773 )                   | (646,487 ) |
| Originations of mortgage servicing rights   | (7,497 )                     | (7,211 )   |
| Earnings on bank-owned life insurance   | (2,487 )                     | (2,429 )   |
| Net change in other assets  | 22,130                       | (8,963 )   |
| Net change in other liabilities   | (5,676 )                     | (857 )     |
| Other operating activities, net   | 2,588                        | 16,933     |
| Net cash provided by operating activities   | 61,985                       | 17,090     |
| <b>Investing Activities</b>   |                              |            |
| Proceeds from maturities, prepayments and calls of securities held to maturity    | 90,340                       | 141,881    |
| Proceeds from maturities, prepayments and calls of securities available for sale  | 230,945                      | 213,709    |
| Proceeds from sales of securities available for sale                              | 26,409                       | 24,693     |
| Purchases of securities held to maturity  | (69,989 )                    | (121,931 ) |
| Purchases of securities available for sale  | (292,170 )                   | (240,482 ) |
| Net proceeds from bank-owned life insurance                                       | —                            | 604        |
| Net change in federal funds sold and securities purchased                         |                              |            |
| under reverse repurchase agreements   | 500                          | (2,948 )   |
| Net change in member bank stock   | 474                          | (6 )       |
| Net change in loans   | (374,640 )                   | (272,617 ) |
| Purchases of premises and equipment   | (8,142 )                     | (5,135 )   |
| Proceeds from sales of premises and equipment                                     | 7,696                        | 155        |
| Proceeds from sales of other real estate  | 15,948                       | 17,101     |
| Purchases of software   | (2,267 )                     | (3,576 )   |
| Investments in tax credit and other partnerships                                  | (2,893 )                     | (46 )      |
| Net cash used in business acquisition   | (19,775 )                    | —          |

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|   |           |           |
|---|-----------|-----------|
| Net cash used in investing activities   | (397,564) | (248,598) |
| <b>Financing Activities</b>   |           |           |
| Net change in deposits  | 201,221   | (56,706 ) |
| Net change in federal funds purchased and securities sold under repurchase agreements | (31,749 ) | 165,294   |
| Net change in short-term borrowings   | 192,799   | (49,734 ) |
| Payments on long-term FHLB advances   | (33 )     | (48 )     |
| Proceeds from long-term FHLB advances   | —         | 250,000   |
| Redemption of junior subordinated debt securities                                     | (3,000 )  | —         |
| Common stock dividends  | (31,397 ) | (31,301 ) |
| Repurchase and retirement of common stock   | —         | (750 )    |
| Shares withheld to pay taxes, long-term incentive plan                                | (1,639 )  | (949 )    |
| Net cash provided by financing activities   | 326,202   | 275,806   |
| Net change in cash and cash equivalents   | (9,377 )  | 44,298    |
| Cash and cash equivalents at beginning of period                                      | 327,706   | 277,751   |
| Cash and cash equivalents at end of period  | \$318,329 | \$322,049 |

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

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

Trustmark Corporation (Trustmark) is a bank holding company headquartered in Jackson, Mississippi. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions to corporate institutions and individual customers through 199 offices at June 30, 2017 in Alabama, Florida, Mississippi, Tennessee and Texas.

The consolidated financial statements include the accounts of Trustmark and all other entities in which Trustmark has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2016 Annual Report on Form 10-K.

Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting periods and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2017 actual conditions could vary from those anticipated, which could affect Trustmark's financial condition and results of operations. Actual results could differ from those estimates.

#### Note 2 – Business Combinations

On April 7, 2017, Trustmark completed its merger with RB Bancorporation (Reliance), the holding company for Reliance Bank, which had seven offices serving the Huntsville, Alabama metropolitan service area (MSA). Reliance Bank was merged into Trustmark National Bank simultaneously with the merger of Trustmark and Reliance. Under the terms of the Merger Agreement dated November 14, 2016, Trustmark paid \$22.00 in cash for each share of Reliance common stock outstanding, which represented payment to Reliance common shareholders of approximately \$23.7 million. In addition, Trustmark paid off Reliance Preferred Stock of \$1.1 million bringing the total consideration paid to \$24.8 million.

The merger with Reliance was consistent with Trustmark's strategic plan to selectively expand the Trustmark franchise and enhance the Trustmark franchise in north Alabama.

This merger was accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, "Business Combinations." Accordingly, the assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the merger date. The fair values of the assets acquired and liabilities assumed are subject to adjustment if additional information relative to the closing date fair values becomes available through the measurement period, which is not to exceed one year from the merger date of April 7, 2017.

The statement of assets purchased and liabilities assumed in the Reliance merger is presented below at their estimated fair values as of the merger date of April 7, 2017 (\$ in thousands):

|   |                 |
|---|-----------------|
| Assets:   |                 |
| Cash and due from banks   | \$5,013         |
| Federal funds sold and securities purchased under reverse repurchase agreements | 6,900           |
| Securities  | 54,843          |
| Acquired loans  | 117,447         |
| Premises and equipment, net   | 3,700           |
| Identifiable intangible assets  | 1,850           |
| Other real estate   | 475             |
| Other assets  | 6,037           |
| <b>Total assets</b>   | <b>196,265</b>  |
| Liabilities:  |                 |
| Deposits  | 166,158         |
| Other borrowings  | 17,469          |
| Other liabilities   | 1,322           |
| <b>Total liabilities</b>  | <b>184,949</b>  |
| <b>Net identifiable assets acquired at fair value</b>                           | <b>11,316</b>   |
| Goodwill  | 13,472          |
| <b>Total consideration paid</b>   | <b>\$24,788</b> |

The excess of the consideration paid over the estimated fair value of the net assets acquired was \$13.5 million, which was recorded as goodwill under FASB ASC Topic 805. The identifiable intangible assets acquired represent the core deposit intangible at fair value at the merger date. The core deposit intangible is being amortized on an accelerated basis over the estimated useful life, currently expected to be approximately ten years.

Loans acquired from Reliance were evaluated under a fair value process. Loans with evidence of deterioration in credit quality and for which it was probable at acquisition that Trustmark would not be able to collect all contractually required payments are referred to as acquired impaired loans and accounted for in accordance with FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." See Note 5 – Acquired Loans for additional information on acquired loans.

The operations of Reliance are included in Trustmark's operating results from April 7, 2017 and did not have a material impact on Trustmark's results of operations. During the second quarter of 2017, Trustmark included non-routine merger transaction expenses in other noninterest expense totaling \$3.2 million (change in control expense of \$1.3 million; professional fees, contract termination and other expenses of \$1.9 million).

#### Fair Value of Acquired Financial Instruments

For financial instruments measured at fair value, Trustmark utilized Level 2 inputs to determine the fair value of securities available for sale (included in securities above), time deposits (included in deposits above) and FHLB advances (included in other borrowings above). Level 3 inputs were used to determine the fair value of acquired loans, identifiable intangible assets and other real estate. The methodology and significant assumptions used in estimating the fair values of these financial assets and liabilities are as follows:

Securities Available for Sale

Estimated fair values for securities available for sale are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Acquired Loans

Fair value of acquired loans is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of default and current market rates.

#### Identifiable Intangible Assets

The fair value assigned to the identifiable intangible assets, in this case the core deposit intangible, represents the future economic benefits of the potential cost savings from acquiring core deposits in the merger compared to the cost of obtaining alternative funding from market sources.

#### Other Real Estate

Other real estate was initially recorded at its estimated fair value on the merger date based on independent appraisals less estimated selling costs.

#### Time Deposits

Time deposits were valued by projecting expected cash flows into the future based on each account's contracted rate and then determining the present value of those expected cash flows using current rates for deposits with similar maturities.

#### FHLB Advances

FHLB advances were valued by projecting expected cash flows into the future based on each advance's contracted rate and then determining the present value of those expected cash flows using current rates for advances with similar maturities.

Please refer to Note 16 – Fair Value for more information on Trustmark's classification of financial instruments based on valuation inputs within the fair value hierarchy.

## Note 3 – Securities Available for Sale and Held to Maturity

The following tables are a summary of the amortized cost and estimated fair value of securities available for sale and held to maturity at June 30, 2017 and December 31, 2016 (\$ in thousands):

|  | Securities Available for Sale |             |              |                      | Securities Held to Maturity |             |              |                      |
|--|-------------------------------|-------------|--------------|----------------------|-----------------------------|-------------|--------------|----------------------|
|  | Amortized Cost                | Gross Gains | Gross Losses | Estimated Fair Value | Amortized Cost              | Gross Gains | Gross Losses | Estimated Fair Value |
| June 30, 2017                                    |                               |             |              |                      |                             |             |              |                      |
| U.S. Government agency obligations               |                               |             |              |                      |                             |             |              |                      |
| Issued by U.S. Government agencies               | \$51,431                      | \$ 376      | \$(530 )     | \$51,277             | \$—                         | \$—         | \$—          | \$—                  |
| Issued by U.S. Government sponsored agencies     | 256                           | 16          | —            | 272                  | 3,669                       | 153         | —            | 3,822                |
| Obligations of states and political subdivisions |                               |             |              |                      |                             |             |              |                      |
| subdivisions                                     | 94,868                        | 1,676       | (30 )        | 96,514               | 46,098                      | 1,559       | (11 )        | 47,646               |
| Mortgage-backed securities                       |                               |             |              |                      |                             |             |              |                      |
| Residential mortgage pass-through securities     |                               |             |              |                      |                             |             |              |                      |
| Guaranteed by GNMA                               | 59,037                        | 294         | (909 )       | 58,422               | 14,399                      | 235         | (62 )        | 14,572               |
| Issued by FNMA and FHLMC                         | 865,481                       | 1,841       | (6,751 )     | 860,571              | 144,282                     | 301         | (882 )       | 143,701              |
| Other residential mortgage-backed securities     |                               |             |              |                      |                             |             |              |                      |
| Issued or guaranteed by FNMA, FHLMC or GNMA      | 1,157,006                     | 6,875       | (6,640 )     | 1,157,241            | 740,042                     | 4,041       | (4,563 )     | 739,520              |

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|  |             |          |             |             |             |         |            |             |
|--|-------------|----------|-------------|-------------|-------------|---------|------------|-------------|
| Commercial mortgage-backed securities            |             |          |             |             |             |         |            |             |
| Issued or guaranteed by FNMA,                    |             |          |             |             |             |         |            |             |
| FHLMC or GNMA                                    | 222,226     | 1,603    | (438 )      | 223,391     | 191,264     | 2,234   | (474 )     | 193,024     |
| Total  | \$2,450,305 | \$12,681 | \$(15,298 ) | \$2,447,688 | \$1,139,754 | \$8,523 | \$(5,992 ) | \$1,142,285 |
| December 31, 2016                                |             |          |             |             |             |         |            |             |
| U.S. Government agency obligations               |             |          |             |             |             |         |            |             |
| Issued by U.S. Government agencies               | \$56,272    | \$416    | \$(925 )    | \$55,763    | \$—         | \$—     | \$—        | \$—         |
| Issued by U.S. Government sponsored agencies     | 257         | 19       | —           | 276         | 3,647       | 355     | —          | 4,002       |
| Obligations of states and political subdivisions | 113,541     | 1,945    | (113 )      | 115,373     | 46,303      | 1,476   | (27 )      | 47,752      |
| Mortgage-backed securities                       |             |          |             |             |             |         |            |             |
| Residential mortgage pass-through securities     |             |          |             |             |             |         |            |             |
| Guaranteed by GNMA                               | 43,222      | 340      | (776 )      | 42,786      | 15,478      | 280     | (52 )      | 15,706      |
| Issued by FNMA and FHLMC                         | 638,809     | 1,773    | (9,498 )    | 631,084     | 81,299      | 223     | (1,084 )   | 80,438      |
| Other residential mortgage-backed securities     |             |          |             |             |             |         |            |             |
| Issued or guaranteed by FNMA,                    |             |          |             |             |             |         |            |             |
| FHLMC or GNMA                                    | 1,271,198   | 5,865    | (9,112 )    | 1,267,951   | 803,474     | 3,208   | (6,519 )   | 800,163     |
| Commercial mortgage-backed securities            | 242,869     | 1,766    | (1,186 )    | 243,449     | 208,442     | 1,758   | (1,215 )   | 208,985     |

| Issued or<br>guaranteed by<br>FNMA,<br><br>FHLMC or<br>GNMA |             |           |             |             |              |          |            |             |  |
|---|-------------|-----------|-------------|-------------|--------------|----------|------------|-------------|--|
| Total   | \$2,366,168 | \$ 12,124 | \$(21,610 ) | \$2,356,682 | \$ 1,158,643 | \$ 7,300 | \$(8,897 ) | \$1,157,046 |  |

During 2013, Trustmark reclassified approximately \$1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities totaled approximately \$46.6 million (\$28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. At June 30, 2017, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately \$21.8 million (\$13.4 million, net of tax).

## Temporarily Impaired Securities

The tables below include securities with gross unrealized losses segregated by length of impairment at June 30, 2017 and December 31, 2016 (\$ in thousands):

|  | Less than 12 Months<br>Gross |            | 12 Months or More<br>Gross |            | Total       |            |
|--|------------------------------|------------|----------------------------|------------|-------------|------------|
|  | Estimated                    | Unrealized | Estimated                  | Unrealized | Estimated   | Unrealized |
|  | Fair Value                   | Losses     | Fair Value                 | Losses     | Fair Value  | Losses     |
| June 30, 2017                                    |                              |            |                            |            |             |            |
| U.S. Government agency obligations               |                              |            |                            |            |             |            |
| Issued by U.S. Government agencies               | \$6,701                      | \$(84)     | \$25,788                   | \$(446)    | \$32,489    | \$(530)    |
| Obligations of states and political subdivisions | 7,166                        | (26)       | 1,315                      | (15)       | 8,481       | (41)       |
| Mortgage-backed securities                       |                              |            |                            |            |             |            |
| Residential mortgage pass-through securities     |                              |            |                            |            |             |            |
| Guaranteed by GNMA                               | 49,320                       | (873)      | 2,359                      | (98)       | 51,679      | (971)      |
| Issued by FNMA and FHLMC                         | 731,409                      | (7,632)    | 41                         | (1)        | 731,450     | (7,633)    |
| Other residential mortgage-backed securities     |                              |            |                            |            |             |            |
| Issued or guaranteed by FNMA, FHLMC or           |                              |            |                            |            |             |            |
| GNMA   | 755,575                      | (8,683)    | 72,249                     | (2,520)    | 827,824     | (11,203)   |
| Commercial mortgage-backed securities            |                              |            |                            |            |             |            |
| Issued or guaranteed by FNMA, FHLMC or           |                              |            |                            |            |             |            |
| GNMA   | 115,574                      | (905)      | 1,795                      | (7)        | 117,369     | (912)      |
| Total  | \$1,665,745                  | \$(18,203) | \$103,547                  | \$(3,087)  | \$1,769,292 | \$(21,290) |
| December 31, 2016                                |                              |            |                            |            |             |            |
| U.S. Government agency obligations               |                              |            |                            |            |             |            |
| Issued by U.S. Government agencies               | \$9,420                      | \$(142)    | \$33,248                   | \$(783)    | \$42,668    | \$(925)    |
| Obligations of states and political subdivisions | 20,539                       | (135)      | 654                        | (5)        | 21,193      | (140)      |
| Mortgage-backed securities                       |                              |            |                            |            |             |            |
| Residential mortgage pass-through securities     |                              |            |                            |            |             |            |
| Guaranteed by GNMA                               | 43,615                       | (822)      | 222                        | (6)        | 43,837      | (828)      |
| Issued by FNMA and FHLMC                         | 588,352                      | (10,582)   | —                          | —          | 588,352     | (10,582)   |
| Other residential mortgage-backed securities     |                              |            |                            |            |             |            |
| Issued or guaranteed by FNMA, FHLMC or           |                              |            |                            |            |             |            |
| GNMA   | 1,127,501                    | (12,722)   | 76,196                     | (2,909)    | 1,203,697   | (15,631)   |

Commercial mortgage-backed securities  
 Issued or guaranteed by FNMA, FHLMC  
 or

|       |             |             |           |            |             |             |
|-------|-------------|-------------|-----------|------------|-------------|-------------|
| GNMA  | 244,050     | (2,311 )    | 4,655     | (90 )      | 248,705     | (2,401 )    |
| Total | \$2,033,477 | \$(26,714 ) | \$114,975 | \$(3,793 ) | \$2,148,452 | \$(30,507 ) |

The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at June 30, 2017. There were no other-than-temporary impairments for the six months ended June 30, 2017 and 2016.

#### Security Gains and Losses

Gains and losses as a result of calls and dispositions of securities, as well as any associated proceeds, were as follows for the periods presented (\$ in thousands):

| Available for Sale                          | Three Months Ended June 30, |      | Six Months Ended June 30, |          |
|---|-----------------------------|------|---------------------------|----------|
|   | 2017                        | 2016 | 2017                      | 2016     |
| Proceeds from calls and sales of securities | \$26,409                    | \$ — | \$26,409                  | \$24,693 |
| Gross realized gains                        | 1                           | —    | 1                         | 32       |
| Gross realized (losses)                     | —                           | —    | —                         | (342 )   |

Realized gains and losses are determined using the specific identification method and are included in noninterest income as security losses, net.

Securities Pledged

Securities with a carrying value of \$2.012 billion and \$1.999 billion at June 30, 2017 and December 31, 2016, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At both June 30, 2017 and December 31, 2016, none of these securities were pledged under the Federal Reserve Discount Window program to provide additional contingency funding capacity.

Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at June 30, 2017, by contractual maturity, are shown below (\$ in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Securities         |             | Securities       |             |
|--|--------------------|-------------|------------------|-------------|
|  | Available for Sale |             | Held to Maturity |             |
|  | Amortized          | Estimated   | Amortized        | Estimated   |
|  | Cost               | Fair Value  | Cost             | Fair Value  |
| Due in one year or less                | \$28,442           | \$28,649    | \$155            | \$155       |
| Due after one year through five years  | 75,894             | 77,675      | 39,820           | 41,165      |
| Due after five years through ten years | 6,278              | 6,280       | 9,792            | 10,148      |
| Due after ten years                    | 35,941             | 35,459      | —                | —           |
|  | 146,555            | 148,063     | 49,767           | 51,468      |
| Mortgage-backed securities             | 2,303,750          | 2,299,625   | 1,089,987        | 1,090,817   |
| Total                                  | \$2,450,305        | \$2,447,688 | \$1,139,754      | \$1,142,285 |

Note 4 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI

At June 30, 2017 and December 31, 2016, LHFI consisted of the following (\$ in thousands):

|   | June 30,<br>2017 | December<br>31, 2016 |
|---|------------------|----------------------|
| Loans secured by real estate:                 |                  |                      |
| Construction, land development and other land | \$922,029        | \$831,437            |
| Secured by 1-4 family residential properties  | 1,655,968        | 1,660,043            |
| Secured by nonfarm, nonresidential properties | 2,109,367        | 2,034,176            |
| Other real estate secured                     | 432,208          | 318,148              |
| Commercial and industrial loans               | 1,635,000        | 1,528,434            |
| Consumer loans                                | 170,858          | 170,562              |
| State and other political subdivision loans   | 936,860          | 917,515              |
| Other loans                                   | 433,755          | 390,898              |

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|                                 |             |             |
|---------------------------------|-------------|-------------|
| LHFI (1)                        | 8,296,045   | 7,851,213   |
| Allowance for loan losses, LHFI | (76,184 )   | (71,265 )   |
| Net LHFI                        | \$8,219,861 | \$7,779,948 |

(1) During the first quarter of 2017, Trustmark reclassified \$36.7 million of acquired loans not accounted for under FASB ASC Topic 310-30 to LHFI due to the discount on these loans being fully amortized.

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At June 30, 2017, Trustmark's geographic loan distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. Accordingly, the ultimate collectability of a substantial portion of these loans is susceptible to changes in market conditions in these areas.

Nonaccrual and Past Due LHFI

At June 30, 2017 and December 31, 2016, the carrying amounts of nonaccrual LHFI were \$74.1 million and \$49.2 million, respectively. Included in these amounts were \$13.2 million and \$14.4 million, respectively, of nonaccrual LHFI classified as troubled debt restructurings (TDRs). No material interest income was recognized in the income statement on nonaccrual LHFI for each of the periods ended June 30, 2017 and 2016.

The following table details nonaccrual LHFI by loan type at June 30, 2017 and December 31, 2016 (\$ in thousands):

|   | June 30,<br>2017 | December<br>31, 2016 |
|---|------------------|----------------------|
| Loans secured by real estate:                 |                  |                      |
| Construction, land development and other land | \$2,746          | \$3,323              |
| Secured by 1-4 family residential properties  | 19,079           | 20,329               |
| Secured by nonfarm, nonresidential properties | 20,661           | 8,482                |
| Other real estate secured                     | 185              | 402                  |
| Commercial and industrial loans               | 26,086           | 15,824               |
| Consumer loans                                | 491              | 300                  |
| State and other political subdivision loans   | —                | —                    |
| Other loans                                   | 4,896            | 574                  |
| Total nonaccrual LHFI                         | \$74,144         | \$49,234             |

The following tables provide an aging analysis of past due and nonaccrual LHFI by loan type at June 30, 2017 and December 31, 2016 (\$ in thousands):

|   | June 30, 2017 |               |                        | Total    | Nonaccrual | Current     | Total LHFI  |
|---|---------------|---------------|------------------------|----------|------------|-------------|-------------|
|   | Past Due      |               |                        |          |            |             |             |
|   | 30-59<br>Days | 60-89<br>Days | 90 Days<br>or More (1) |          |            | Loans       |             |
| Loans secured by real estate:                 |               |               |                        |          |            |             |             |
| Construction, land development and other land | \$389         | \$36          | \$14                   | \$439    | \$2,746    | \$918,844   | \$922,029   |
| Secured by 1-4 family residential properties  | 5,883         | 2,351         | 920                    | 9,154    | 19,079     | 1,627,735   | 1,655,968   |
| Secured by nonfarm, nonresidential properties | 789           | —             | 3                      | 792      | 20,661     | 2,087,914   | 2,109,367   |
| Other real estate secured                     | 39            | —             | —                      | 39       | 185        | 431,984     | 432,208     |
| Commercial and industrial loans               | 1,071         | 63            | 10                     | 1,144    | 26,086     | 1,607,770   | 1,635,000   |
| Consumer loans                                | 1,779         | 314           | 269                    | 2,362    | 491        | 168,005     | 170,858     |
| State and other political subdivision loans   | —             | —             | —                      | —        | —          | 936,860     | 936,860     |
| Other loans                                   | 117           | 30            | —                      | 147      | 4,896      | 428,712     | 433,755     |
| Total   | \$10,067      | \$2,794       | \$1,216                | \$14,077 | \$74,144   | \$8,207,824 | \$8,296,045 |

(1) Past due 90 days or more but still accruing interest.

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|  | December 31, 2016 |            |             | Total    | Nonaccrual | Current Loans | Total LHFI  |
|--|-------------------|------------|-------------|----------|------------|---------------|-------------|
|  | Past Due          |            | 90 Days     |          |            |               |             |
|  | 30-59 Days        | 60-89 Days | or More (1) |          |            |               |             |
| Loans secured by real estate:                |                   |            |             |          |            |               |             |
| Construction, land development and other     |                   |            |             |          |            |               |             |
| land   | \$248             | \$37       | \$ 54       | \$339    | \$ 3,323   | \$827,775     | \$831,437   |
| Secured by 1-4 family residential properties | 5,308             | 2,434      | 1,436       | 9,178    | 20,329     | 1,630,536     | 1,660,043   |
| Secured by nonfarm, nonresidential           |                   |            |             |          |            |               |             |
| properties                                   | 606               | 100        | —           | 706      | 8,482      | 2,024,988     | 2,034,176   |
| Other real estate secured                    | 179               | —          | —           | 179      | 402        | 317,567       | 318,148     |
| Commercial and industrial loans              | 571               | 213        | —           | 784      | 15,824     | 1,511,826     | 1,528,434   |
| Consumer loans                               | 1,561             | 330        | 341         | 2,232    | 300        | 168,030       | 170,562     |
| State and other political subdivision        |                   |            |             |          |            |               |             |
| loans  | 1,035             | —          | —           | 1,035    | —          | 916,480       | 917,515     |
| Other loans                                  | 178               | 53         | —           | 231      | 574        | 390,093       | 390,898     |
| Total  | \$9,686           | \$3,167    | \$ 1,831    | \$14,684 | \$ 49,234  | \$7,787,295   | \$7,851,213 |

(1) Past due 90 days or more but still accruing interest.

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## Impaired LHFI

As of January 1, 2017, Trustmark modified its presentation of individually evaluated impaired LHFI in the accompanying notes to the consolidated financial statements to include all commercial nonaccrual LHFI of \$500 thousand or more, which are specifically reviewed for impairment and deemed impaired, and all LHFI classified as TDRs in accordance with FASB ASC Topic 310-10-50-20. Previously, Trustmark presented all nonaccrual LHFI and LHFI classified as TDRs as impaired loans. Nonaccrual LHFI includes both individually evaluated impaired LHFI as well as smaller balance homogeneous loans that are collectively evaluated for impairment. As a result of this change in presentation, these smaller balance homogeneous nonaccrual LHFI are included within the LHFI collectively evaluated for impairment category. All prior period information has been reclassified to conform to the current period presentation.

Trustmark's individually evaluated impaired LHFI are primarily collateral dependent loans. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or as is value of the collateral, normally from recently received and reviewed appraisals. Current appraisals are ordered on an annual basis based on the inspection date or more often if market conditions necessitate. Appraisals are obtained from state-certified appraisers and are based on certain assumptions, which may include construction or development status and the highest and best use of the property. These appraisals are reviewed by Trustmark's Appraisal Review Department to ensure they are acceptable, and values are adjusted down for costs associated with asset disposal. Once this estimated net realizable value has been determined, the value used in the impairment assessment is updated. At the time a LHFI that has been individually evaluated for impairment is deemed to be impaired, the full difference between book value and the most likely estimate of the collateral's net realizable value is charged off. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded.

No material interest income was recognized in the income statement on impaired LHFI for each of the periods ended June 30, 2017 and 2016.

At June 30, 2017 and December 31, 2016, individually evaluated impaired LHFI consisted of the following (\$ in thousands):

|   | June 30, 2017 |                 |           |          |           |            |
|---|---------------|-----------------|-----------|----------|-----------|------------|
|   | LHFI          |                 |           |          |           |            |
|   | Unpaid        | With No Related | With an   | Total    | Average   |            |
|   | Principal     | Allowance       | Allowance | Carrying | Related   | Recorded   |
|   | Balance       | Recorded        | Recorded  | Amount   | Allowance | Investment |
| Loans secured by real estate:                 |               |                 |           |          |           |            |
| Construction, land development and other land | \$4,930       | \$ 1,645        | \$ 335    | \$ 1,980 | \$ 112    | \$ 2,210   |
| Secured by 1-4 family residential properties  | 6,646         | 188             | 5,072     | 5,260    | 1,320     | 4,955      |
| Secured by nonfarm, nonresidential properties | 20,263        | 7,917           | 9,967     | 17,884   | 3,085     | 12,052     |
| Other real estate secured                     | —             | —               | —         | —        | —         | —          |
| Commercial and industrial loans               | 24,273        | 11,293          | 12,444    | 23,737   | 1,652     | 18,703     |

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|   |          |           |           |          |          |           |
|---|----------|-----------|-----------|----------|----------|-----------|
| Consumer loans                              | 1        | —         | 1         | 1        | —        | 1         |
| State and other political subdivision loans | —        | —         | —         | —        | —        | —         |
| Other loans                                 | 4,523    | 95        | 4,428     | 4,523    | —        | 2,309     |
| Total                                       | \$60,636 | \$ 21,138 | \$ 32,247 | \$53,385 | \$ 6,169 | \$ 40,230 |

December 31, 2016

LHFI

| Unpaid    | With No Related | With an   | Total    | Related   | Average    |
|-----------|-----------------|-----------|----------|-----------|------------|
| Principal | Allowance       | Allowance | Carrying | Related   | Recorded   |
| Balance   | Recorded        | Recorded  | Amount   | Allowance | Investment |

Loans secured by real estate:

|   |          |           |          |          |          |           |
|---|----------|-----------|----------|----------|----------|-----------|
| Construction, land development and other land | \$5,691  | \$ 2,213  | \$ 228   | \$2,441  | \$ 103   | \$ 2,943  |
| Secured by 1-4 family residential properties  | 6,134    | 221       | 4,428    | 4,649    | 960      | 4,639     |
| Secured by nonfarm, nonresidential properties | 8,562    | 5,784     | 435      | 6,219    | 221      | 6,703     |
| Other real estate secured                     | —        | —         | —        | —        | —        | 500       |
| Commercial and industrial loans               | 14,593   | 11,222    | 2,447    | 13,669   | 1,976    | 14,258    |
| Consumer loans                                | 2        | —         | 2        | 2        | —        | 2         |
| State and other political subdivision loans   | —        | —         | —        | —        | —        | —         |
| Other loans                                   | 95       | —         | 95       | 95       | —        | 95        |
| Total   | \$35,077 | \$ 19,440 | \$ 7,635 | \$27,075 | \$ 3,260 | \$ 29,140 |

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Troubled Debt Restructurings

A TDR occurs when a borrower is experiencing financial difficulties, and for related economic or legal reasons, a concession is granted to the borrower that Trustmark would not otherwise consider. Whatever the form of concession that might be granted by Trustmark, Management’s objective is to enhance collectability by obtaining more cash or other value from the borrower or by increasing the probability of receipt by granting the concession than by not granting it. Other concessions may arise from court proceedings or may be imposed by law. In addition, TDRs also include those credits that are extended or renewed to a borrower who is not able to obtain funds from sources other than Trustmark at a market interest rate for new debt with similar risk.

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310. Accordingly, Trustmark measures any loss on the restructuring in accordance with that guidance. A TDR in which Trustmark receives physical possession of the borrower’s assets, regardless of whether formal foreclosure or repossession proceedings take place, is accounted for in accordance with FASB ASC Subtopic 310-40, “Troubled Debt Restructurings by Creditors.” Thus, the loan is treated as if assets have been received in satisfaction of the loan and reported as a foreclosed asset. At June 30, 2017 and December 31, 2016, Trustmark held \$420 thousand and \$269 thousand, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFI classified as TDRs. Consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings totaled \$174 thousand at June 30, 2017 compared to \$101 thousand at December 31, 2016.

A TDR may be returned to accrual status if Trustmark is reasonably assured of repayment of principal and interest under the modified terms and the borrower has demonstrated sustained performance under those terms for a period of at least six months. Otherwise, the restructured loan must remain on nonaccrual.

At June 30, 2017 and 2016, LHFI classified as TDRs totaled \$13.2 million and \$7.7 million, respectively, and were comprised of credits with interest-only payments for an extended period of time which totaled \$9.5 million and \$5.4 million, respectively. The remaining TDRs at June 30, 2017 and 2016 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions.

For TDRs, Trustmark had a related loan loss allowance of \$506 thousand and \$1.7 million at June 30, 2017 and 2016, respectively. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. There were no specific charge-offs related to TDRs for the six months ended June 30, 2017 or June 30, 2016.

The following tables illustrate the impact of modifications classified as TDRs as well as those TDRs modified within the last 12 months for which there was a payment default during the period for the periods presented (\$ in thousands):

|                              | Three Months Ended June 30,<br>2017 |                   | 2016             |                   |
|------------------------------|-------------------------------------|-------------------|------------------|-------------------|
|                              | Pre-Modification                    | Post-Modification | Pre-Modification | Post-Modification |
|                              | Outstanding                         | Outstanding       | Outstanding      | Outstanding       |
|                              | Number of                           | Recorded          | Number of        | Recorded          |
| Troubled Debt Restructurings | Contract                            | Investment        | Contract         | Investment        |

|                           |    |          |          |   |        |        |
|---------------------------|----|----------|----------|---|--------|--------|
| Construction, land        |    |          |          |   |        |        |
| development and other     |    |          |          |   |        |        |
| land loans                | —  | \$ —     | \$ —     | 1 | \$ 14  | \$ 14  |
| Loans secured by 1-4      |    |          |          |   |        |        |
| family residential        |    |          |          |   |        |        |
| properties                | 9  | 834      | 839      | 6 | 669    | 669    |
| Commercial and industrial |    |          |          |   |        |        |
| loans                     | 1  | 244      | 244      | — | —      | —      |
| Consumer loans            | —  | —        | —        | 1 | 2      | 2      |
| Total                     | 10 | \$ 1,078 | \$ 1,083 | 8 | \$ 685 | \$ 685 |

16

|                              | Six Months Ended June 30,<br>2017    |                         | 2016                                 |                         |        |        |
|------------------------------|--------------------------------------|-------------------------|--------------------------------------|-------------------------|--------|--------|
|                              | Pre-Modification                     | Post-Modification       | Pre-Modification                     | Post-Modification       |        |        |
|                              | Outstanding<br>Number<br>of Recorded | Outstanding<br>Recorded | Outstanding<br>Number<br>of Recorded | Outstanding<br>Recorded |        |        |
| Investment                   | Investment                           | Investment              | Investment                           | Investment              |        |        |
| Troubled Debt Restructurings |                                      |                         |                                      |                         |        |        |
| Construction, land           |                                      |                         |                                      |                         |        |        |
| development and other        |                                      |                         |                                      |                         |        |        |
| land loans                   | 1                                    | \$ 341                  | \$ 325                               | 1                       | \$ 14  | \$ 14  |
| Loans secured by 1-4         |                                      |                         |                                      |                         |        |        |
| family residential           |                                      |                         |                                      |                         |        |        |
| properties                   | 16                                   | 1,168                   | 1,177                                | 8                       | 740    | 740    |
| Commercial and industrial    |                                      |                         |                                      |                         |        |        |
| loans                        | 1                                    | 244                     | 244                                  | —                       | —      | —      |
| Consumer loans               | —                                    | —                       | —                                    | 1                       | 2      | 2      |
| Total                        | 18                                   | \$ 1,753                | \$ 1,746                             | 10                      | \$ 756 | \$ 756 |

|  | Six Months Ended June 30,<br>2017 |            | 2016                  |            |
|--|-----------------------------------|------------|-----------------------|------------|
|  | Number<br>of Recorded             | Investment | Number<br>of Recorded | Investment |
| TDRs that Subsequently Defaulted                   |                                   |            |                       |            |
| Loans secured by 1-4 family residential properties | —                                 | \$ —       | 1                     | \$ 16      |
| Commercial and industrial                          | 2                                 | —          | —                     | —          |
| Total  | 2                                 | \$ —       | 1                     | \$ 16      |

Trustmark's TDRs have resulted primarily from allowing the borrower to pay interest-only for an extended period of time rather than from forgiveness. Accordingly, as shown above, these TDRs have a similar recorded investment for both the pre-modification and post-modification disclosure. Trustmark has utilized loans 90 days or more past due to define payment default in determining TDRs that have subsequently defaulted.

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The following tables detail LHFI classified as TDRs by loan type at June 30, 2017 and 2016 (\$ in thousands):

|   | June 30, 2017 |                   |
|---|---------------|-------------------|
|   | Accruing      | Nonaccruing Total |
| Loans secured by real estate:                 |               |                   |
| Construction, land development and other land | \$—           | \$ 641            |
| Secured by 1-4 family residential properties  | —             | 3,589             |
| Secured by nonfarm, nonresidential properties | —             | 802               |
| Commercial and industrial loans               | —             | 8,207             |
| Consumer loans                                | —             | 1                 |
| Total TDRs                                    | \$—           | \$ 13,240         |

|   | June 30, 2016 |                   |
|---|---------------|-------------------|
|   | Accruing      | Nonaccruing Total |
| Loans secured by real estate:                 |               |                   |
| Construction, land development and other land | \$—           | \$ 577            |
| Secured by 1-4 family residential properties  | —             | 3,187             |
| Secured by nonfarm, nonresidential properties | —             | 3,501             |
| Commercial and industrial loans               | —             | 437               |
| Consumer loans                                | —             | 2                 |
| Total TDRs                                    | \$—           | \$ 7,704          |