

TRUSTMARK CORP  
Form 10-Q  
November 06, 2018

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 September 30, 2018

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

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 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 October 31, 2018, there were 67,088,861 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,” “potentially,” “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 potential market impacts of efforts by the Federal Reserve Board to reduce the size of its balance sheet, 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 credit, securities, and/or commodity 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, 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)	
	September 30, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks (noninterest-bearing)	\$432,471	\$335,768
Federal funds sold and securities purchased under reverse repurchase agreements	1,000	615
Securities available for sale (at fair value)	1,864,633	2,238,635
Securities held to maturity (fair value: \$907,317-2018; \$1,046,247-2017)	943,883	1,056,486
Loans held for sale (LHFS)	182,664	180,512
Loans held for investment (LHFI)	8,747,030	8,569,967
Less allowance for loan losses, LHFI	88,874	76,733
Net LHFI	8,658,156	8,493,234
Acquired loans	132,615	261,517
Less allowance for loan losses, acquired loans	1,714	4,079
Net acquired loans	130,901	257,438
Net LHFI and acquired loans	8,789,057	8,750,672
Premises and equipment, net	178,739	179,339
Mortgage servicing rights	101,374	84,269
Goodwill	379,627	379,627
Identifiable intangible assets, net	12,391	16,360
Other real estate	36,475	43,228
Other assets	517,498	532,442
<b>Total Assets</b>	<b>\$13,439,812</b>	<b>\$13,797,953</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$2,786,539	\$2,978,074
Interest-bearing	8,170,371	7,599,438
Total deposits	10,956,910	10,577,512
Federal funds purchased and securities sold under repurchase agreements	486,865	469,827
Short-term borrowings	190,023	971,049
Long-term Federal Home Loan Bank (FHLB) advances	896	946
Junior subordinated debt securities	61,856	61,856
Other liabilities	143,658	145,062
<b>Total Liabilities</b>	<b>11,840,208</b>	<b>12,226,252</b>
<b>Shareholders' Equity</b>		

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Common stock, no par value:

Authorized: 250,000,000 shares

Issued and outstanding: 67,621,369 shares - 2018; 67,746,094 shares - 2017	14,089	14,115
Capital surplus	362,868	369,124
Retained earnings	1,302,593	1,228,187
Accumulated other comprehensive loss, net of tax	(79,946 )	(39,725 )
Total Shareholders' Equity	1,599,604	1,571,701
Total Liabilities and Shareholders' Equity	\$13,439,812	\$13,797,953

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Income

(\$ in thousands except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	2017	September 30,	2017
	2018		2018	2017
<b>Interest Income</b>				
Interest and fees on LHFS & LHFI	\$102,980	\$89,112	\$291,362	\$253,507
Interest and fees on acquired loans	4,033	6,625	13,932	18,077
Interest on securities:				
Taxable	16,186	19,291	50,586	57,865
Tax exempt	518	717	1,748	2,328
Interest on federal funds sold and securities purchased under reverse repurchase agreements	3	14	10	26
Other interest income	1,050	355	3,038	993
<b>Total Interest Income</b>	<b>124,770</b>	<b>116,114</b>	<b>360,676</b>	<b>332,796</b>
<b>Interest Expense</b>				
Interest on deposits	14,972	6,381	36,602	15,433
Interest on federal funds purchased and securities sold under repurchase agreements	1,348	1,301	3,260	3,036
Other interest expense	1,467	4,520	6,574	10,821
<b>Total Interest Expense</b>	<b>17,787</b>	<b>12,202</b>	<b>46,436</b>	<b>29,290</b>
<b>Net Interest Income</b>	<b>106,983</b>	<b>103,912</b>	<b>314,240</b>	<b>303,506</b>
Provision for loan losses, LHFI	8,673	3,672	15,801	9,355
Provision for loan losses, acquired loans	(467 )	(1,653 )	(758 )	(5,822 )
<b>Net Interest Income After Provision for Loan Losses</b>	<b>98,777</b>	<b>101,893</b>	<b>299,197</b>	<b>299,973</b>
<b>Noninterest Income</b>				
Service charges on deposit accounts	11,075	11,223	32,579	32,810
Bank card and other fees	7,459	7,150	21,155	21,020
Mortgage banking, net	8,647	4,425	28,958	23,618
Insurance commissions	10,765	10,398	30,919	29,355
Wealth management	7,789	7,530	22,834	22,617
Other, net	1,358	3,740	4,832	11,268
Security gains (losses), net	—	14	—	15
<b>Total Noninterest Income</b>	<b>47,093</b>	<b>44,480</b>	<b>141,277</b>	<b>140,703</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	60,847	57,871	179,297	170,445
Defined benefit plan termination	—	—	—	17,644
Services and fees	16,404	15,133	48,472	45,474

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Net occupancy - premises	6,910	6,702	19,962	19,150
Equipment expense	6,200	6,297	18,501	18,457
Other real estate expense, net	1,168	864	1,941	3,006
FDIC assessment expense	1,999	2,816	7,532	8,142
Other expense	11,695	13,403	35,783	44,900
Total Noninterest Expense	105,223	103,086	311,488	327,218
Income Before Income Taxes	40,647	43,287	128,986	113,458
Income taxes	4,394	8,708	16,090	23,596
Net Income	\$36,253	\$34,579	\$112,896	\$89,862
Earnings Per Share				
Basic	\$0.54	\$0.51	\$1.67	\$1.33
Diluted	\$0.54	\$0.51	\$1.67	\$1.32
Dividends Per Share				
	\$0.23	\$0.23	\$0.69	\$0.69

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Comprehensive Income

(\$ in thousands)

(Unaudited)

	Three Months		Nine Months Ended	
	Ended September		September 30,	
	30,	2017	2018	2017
	2018	2017	2018	2017
Net income per consolidated statements of income	\$36,253	\$34,579	\$112,896	\$89,862
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	(7,246 )	(331 )	(35,231 )	3,912
Less: adjustment for net (gains) losses realized in net income	—	(8 )	—	(9 )
Change in net unrealized holding loss on securities transferred to held to maturity	730	698	2,182	2,193
Pension and other postretirement benefit plans:				
Net change in prior service costs	47	39	140	116
Recognized net loss due to lump sum settlement	31	—	92	—
Change in net actuarial loss	271	219	819	1,187
Recognized net loss due to defined benefit plan termination	—	—	—	10,492
Derivatives:				
Change in the accumulated gain (loss) on effective cash flow hedge derivatives	39	33	458	(61 )
Less: adjustment for (gain) loss realized in net income	(79 )	34	(157 )	143
Other comprehensive income (loss), net of tax	(6,207 )	684	(31,697 )	17,973
Comprehensive income	\$30,046	\$35,263	\$81,199	\$107,835

See notes to consolidated financial statements.





Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

(\$ in thousands)

(Unaudited)

	2018	2017
Balance, January 1,	\$1,571,701	\$1,520,208
Net income per consolidated statements of income	112,896	89,862
Other comprehensive income (loss), net of tax	(31,697 )	17,973
Common stock dividends paid	(47,014 )	(47,099 )
Shares withheld to pay taxes, long-term incentive plan	(1,427 )	(1,659 )
Repurchase and retirement of common stock	(7,877 )	—
Compensation expense, long-term incentive plan	3,022	3,250
Balance, September 30,	\$1,599,604	\$1,582,535

See notes to consolidated financial statements.

## Trustmark Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(\$ in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
<b>Operating Activities</b>		
Net income per consolidated statements of income	\$ 112,896	\$ 89,862
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, net	15,043	3,533
Depreciation and amortization	29,512	28,781
Net amortization of securities	7,197	8,084
Securities (gains) losses, net	—	(15 )
Gains on sales of loans, net	(16,409 )	(13,633 )
Deferred income tax provision	5,612	4,800
Proceeds from sales of loans held for sale	836,971	885,520
Purchases and originations of loans held for sale	(823,134 )	(895,992 )
Originations of mortgage servicing rights	(12,248 )	(11,630 )
Earnings on bank-owned life insurance	(3,994 )	(3,753 )
Net change in other assets	521	29,599
Net change in other liabilities	14	4,205
Other operating activities, net	(10,268 )	6,280
Net cash provided by operating activities	141,713	135,641
<b>Investing Activities</b>		
Proceeds from maturities, prepayments and calls of securities held to maturity	114,531	128,515
Proceeds from maturities, prepayments and calls of securities available for sale	334,852	351,817
Proceeds from sales of securities available for sale	—	27,682
Purchases of securities held to maturity	—	(69,989 )
Purchases of securities available for sale	(14,040 )	(338,532 )
Net proceeds from bank-owned life insurance	1,843	3,630
Net change in federal funds sold and securities purchased		
under reverse repurchase agreements	(385 )	4,185
Net change in member bank stock	26,970	739
Net change in loans	(63,796 )	(457,292 )
Purchases of premises and equipment	(10,870 )	(10,963 )
Proceeds from sales of premises and equipment	651	7,792
Proceeds from sales of other real estate	16,490	20,301
Purchases of software	(10,701 )	(3,492 )
Investments in tax credit and other partnerships	(17 )	(5,213 )
Net cash used in business acquisition	—	(19,775 )

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Net cash provided by (used in) investing activities	395,528	(360,595)
<b>Financing Activities</b>		
Net change in deposits	379,398	9,572
Net change in federal funds purchased and securities sold under repurchase agreements	17,038	5,786
Net change in short-term borrowings	(780,606)	283,820
Payments on long-term FHLB advances	(50 )	(49 )
Redemption of junior subordinated debt securities	—	(3,000 )
Common stock dividends	(47,014 )	(47,099 )
Repurchase and retirement of common stock	(7,877 )	—
Shares withheld to pay taxes, long-term incentive plan	(1,427 )	(1,659 )
Net cash provided by (used in) financing activities	(440,538)	247,371
Net change in cash and cash equivalents	96,703	22,417
Cash and cash equivalents at beginning of period	335,768	327,706
Cash and cash equivalents at end of period	\$432,471	\$350,123

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 198 offices at September 30, 2018 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 2017 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 2018 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.

#### Subsequent Events

On October 10, 2018, Hurricane Michael struck the Florida Panhandle causing significant damages. As of September 30, 2018, Trustmark had 1,787 loans with a balance of \$239.7 million and exposure of \$282.1 million in the Federal Emergency Management Agency (FEMA) designated disaster areas which includes 12 counties in Florida and 20 counties in Georgia. Immediately following the storm, Trustmark initiated a process to identify all customers in the FEMA disaster areas. Efforts are now ongoing to contact those borrowers to offer assistance as well as to establish reasonable estimates of uninsured damage and to adequately assess potential risk to Trustmark. Management continues to evaluate the impact of Hurricane Michael and is unable to provide a reasonable estimate of the financial impact on Trustmark's consolidated financial statements at this time.

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 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	13,471
<b>Total consideration paid</b>	<b>\$24,787</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 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 inputs within Level 2 of the fair value hierarchy 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 17 – 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 September 30, 2018 and December 31, 2017 (\$ in thousands):

	Securities Available for Sale				Securities Held to Maturity			
	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2018	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
U.S. Government agency obligations	\$33,511	\$ 126	\$(1,266 )	\$32,371	\$3,725	\$ 26	\$—	\$3,751
Obligations of states and political subdivisions	57,127	201	(64 )	57,264	42,623	173	(156 )	42,640
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	68,844	118	(3,115 )	65,847	12,316	33	(389 )	11,960
Issued by FNMA and FHLMC	713,673	125	(29,324 )	684,474	119,040	3	(4,652 )	114,391
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	872,699	86	(32,712 )	840,073	600,635	—	(27,473 )	573,162
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	189,248	154	(4,798 )	184,604	165,544	41	(4,172 )	161,413

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Total	\$1,935,102	\$ 810	\$(71,279 )	\$1,864,633	\$943,883	\$ 276	\$(36,842 )	\$907,317
December 31, 2017								
U.S. Government agency obligations	\$45,763	\$ 322	\$(800 )	\$45,285	\$3,692	\$ 182	\$—	\$3,874
Obligations of states and political subdivisions	78,433	850	(54 )	79,229	46,039	1,044	(59 )	47,024
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	66,634	215	(1,103 )	65,746	13,539	207	(73 )	13,673
Issued by FNMA and FHLMC	824,872	827	(11,249 )	814,450	133,975	210	(1,559 )	132,626
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,028,176	1,808	(13,194 )	1,016,790	678,926	1,209	(11,065 )	669,070
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	218,252	426	(1,543 )	217,135	180,315	1,102	(1,437 )	179,980
Total	\$2,262,130	\$ 4,448	\$(27,943 )	\$2,238,635	\$1,056,486	\$ 3,954	\$(14,193 )	\$1,046,247

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 September 30, 2018, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately \$16.6 million (\$12.4 million, net

of tax).

11

---

## Temporarily Impaired Securities

The tables below include securities with gross unrealized losses segregated by length of impairment at September 30, 2018 and December 31, 2017 (\$ in thousands):

	Less than 12 Months		12 Months or More		Total	
	Gross		Gross		Gross	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
September 30, 2018	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Government agency obligations	\$—	\$—	\$26,421	\$(1,266)	\$26,421	\$(1,266)
Obligations of states and political subdivisions	29,786	(179)	3,791	(41)	33,577	(220)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	24,843	(677)	49,000	(2,827)	73,843	(3,504)
Issued by FNMA and FHLMC	134,720	(3,928)	655,161	(30,048)	789,881	(33,976)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or						
GNMA	531,793	(14,120)	865,762	(46,065)	1,397,555	(60,185)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or						
GNMA	168,750	(3,334)	158,538	(5,636)	327,288	(8,970)
Total	\$889,892	\$(22,238)	\$1,758,673	\$(85,883)	\$2,648,565	\$(108,121)
December 31, 2017						
U.S. Government agency obligations	\$5,214	\$(113)	\$29,432	\$(687)	\$34,646	\$(800)
Obligations of states and political subdivisions	19,345	(80)	3,874	(33)	23,219	(113)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	37,304	(351)	29,446	(825)	66,750	(1,176)
Issued by FNMA and FHLMC	506,410	(4,219)	369,060	(8,589)	875,470	(12,808)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or						
GNMA	755,013	(7,668)	534,955	(16,591)	1,289,968	(24,259)

## Commercial mortgage-backed securities

Issued or guaranteed by FNMA, FHLMC or

GNMA	230,898	(1,719 )	55,288	(1,261 )	286,186	(2,980 )
Total	\$1,554,184	\$(14,150 )	\$1,022,055	\$(27,986 )	\$2,576,239	\$(42,136 )

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 September 30, 2018. There were no other-than-temporary impairments for the nine months ended September 30, 2018 and 2017.

## Security Gains and Losses

Gross realized gains or 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):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Available for Sale	2018	2017
Proceeds from calls and sales of securities	\$—\$1,273	\$—\$27,682
Gross realized gains	— 15	— 16
Gross realized (losses)	— (1 )	— (1 )

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

### Securities Pledged

Securities with a carrying value of \$2.092 billion and \$1.834 billion at September 30, 2018 and December 31, 2017, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At both September 30, 2018 and December 31, 2017, 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 September 30, 2018, 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	\$25,525	\$25,554	\$170	\$170
Due after one year through five years	37,426	37,661	41,912	41,934
Due after five years through ten years	3,124	3,054	4,266	4,287
Due after ten years	24,563	23,366	—	—
	90,638	89,635	46,348	46,391
Mortgage-backed securities	1,844,464	1,774,998	897,535	860,926
<b>Total</b>	<b>\$1,935,102</b>	<b>\$1,864,633</b>	<b>\$943,883</b>	<b>\$907,317</b>

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

At September 30, 2018 and December 31, 2017, LHFI consisted of the following (\$ in thousands):

	September 30, 2018	December 31, 2017
Loans secured by real estate:		
Construction, land development and other land	\$1,031,491	\$987,624
Secured by 1-4 family residential properties	1,801,029	1,675,311
Secured by nonfarm, nonresidential properties	2,294,289	2,193,823
Other real estate secured	453,687	517,956
Commercial and industrial loans	1,565,922	1,570,345

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Consumer loans	182,709	171,918
State and other political subdivision loans	929,178	952,483
Other loans	488,725	500,507
LHFI	8,747,030	8,569,967
Allowance for loan losses, LHFI	(88,874 )	(76,733 )
Net LHFI	\$8,658,156	\$8,493,234

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At September 30, 2018, 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 September 30, 2018 and December 31, 2017, the carrying amounts of nonaccrual LHFI were \$67.8 million and \$67.6 million, respectively. Included in these amounts were \$33.6 million and \$23.2 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 September 30, 2018 and 2017.



Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following tables provide an aging analysis of past due and nonaccrual LHFI by loan type at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018			Total	Nonaccrual	Current	Total LHFI
	Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)				
<b>Loans secured by real estate:</b>							
<b>Construction, land development and other</b>							
land	\$203	\$5	\$ —	\$208	\$ 2,262	\$1,029,021	\$1,031,491
<b>Secured by 1-4 family residential properties</b>							
Secured by nonfarm, nonresidential properties	5,626	1,304	447	7,377	15,164	1,778,488	1,801,029
Other real estate secured	256	280	—	536	5,389	2,288,364	2,294,289
Commercial and industrial loans	5	—	—	5	742	452,940	453,687
Consumer loans	1,727	9	21	1,757	33,870	1,530,295	1,565,922
State and other political subdivision loans	1,480	241	258	1,979	228	180,502	182,709
Other loans	—	—	—	—	8,762	920,416	929,178
<b>Total</b>	<b>\$9,716</b>	<b>\$1,872</b>	<b>\$ 726</b>	<b>\$12,314</b>	<b>\$ 67,836</b>	<b>\$8,666,880</b>	<b>\$8,747,030</b>

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

	December 31, 2017			Total	Nonaccrual	Current	Total LHFI
	Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)				
<b>Loans secured by real estate:</b>							
<b>Construction, land development and other</b>							
land	\$391	\$1	\$ —	\$392	\$ 2,105	\$985,127	\$987,624
<b>Secured by 1-4 family residential properties</b>							
Secured by nonfarm, nonresidential properties	6,412	2,084	1,917	10,413	19,022	1,645,876	1,675,311
Other real estate secured	2,319	256	—	2,575	12,608	2,178,640	2,193,823
Commercial and industrial loans	—	—	—	—	212	517,744	517,956
Consumer loans	759	1,233	12	2,004	33,338	1,535,003	1,570,345
State and other political subdivision loans	2,141	255	242	2,638	135	169,145	171,918
Other loans	350	39	—	389	—	952,094	952,483
<b>Total</b>	<b>\$12,390</b>	<b>\$3,872</b>	<b>\$ 2,171</b>	<b>\$18,433</b>	<b>\$ 67,575</b>	<b>\$8,483,959</b>	<b>\$8,569,967</b>

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

## Impaired LHFI

Trustmark's individually evaluated impaired LHFI include all commercial nonaccrual relationships 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 "Impaired Loans", and 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 September 30, 2018 and 2017.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

At September 30, 2018 and December 31, 2017, individually evaluated impaired LHFI consisted of the following (\$ in thousands):

	September 30, 2018					
	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	\$ 1,801	\$ 1,546	\$ 26	\$ 1,572	\$ —	\$ 1,747
Secured by 1-4 family residential properties	4,771	126	3,614	3,740	43	4,217
Secured by nonfarm, nonresidential properties	3,585	3,010	360	3,370	78	5,845
Other real estate secured	—	—	—	—	—	—
Commercial and industrial loans	39,845	14,657	19,045	33,702	13,869	28,218
Consumer loans	3	—	3	3	—	6
State and other political subdivision loans	8,765	4,079	4,683	8,762	683	4,381
Other loans	1,432	230	1,076	1,306	1,076	816
Total	\$60,202	\$ 23,648	\$ 28,807	\$52,455	\$ 15,749	\$ 45,230
	December 31, 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	\$ 1,704	\$ 1,206	\$ 199	\$ 1,405	\$ 75	\$ 1,923
Secured by 1-4 family residential properties	6,031	160	4,576	4,736	1,331	4,693
Secured by nonfarm, nonresidential properties	15,205	10,027	396	10,423	165	8,321
Other real estate secured	—	—	—	—	—	—
Commercial and industrial loans	36,874	31,281	518	31,799	131	22,734
Consumer loans	17	—	17	17	—	9
State and other political subdivision loans	—	—	—	—	—	—
Other loans	556	—	556	556	41	325
Total	\$60,387	\$ 42,674	\$ 6,262	\$48,936	\$ 1,743	\$ 38,005
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 TDR are evaluated for impairment under FASB ASC Topic 310, "Receivables". 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 September 30, 2018 and December 31, 2017, Trustmark held \$203 thousand and \$366 thousand, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFIs classified as TDRs. At September 30, 2018, Trustmark had \$55 thousand of consumer mortgage LHFIs classified as TDRs in the process of formal foreclosure proceedings compared to none at December 31, 2017.

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 September 30, 2018 and 2017, LHFI classified as TDRs totaled \$36.0 million and \$24.4 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time which totaled \$24.7 million and \$21.1 million, respectively. The remaining TDRs at September 30, 2018 and 2017 resulted from bankruptcies or from payment or maturity extensions. Trustmark had \$7.7 million of unused commitments on TDRs at September 30, 2018 compared to no material unused commitments on TDRs at September 30, 2017.

For TDRs, Trustmark had a related loan loss allowance of \$14.3 million and \$393 thousand at September 30, 2018 and 2017, 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. Specific charge-offs related to TDRs totaled \$4.7 million for the nine months ended September 30, 2018 compared to \$126 thousand for the nine months ended September 30, 2017.

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 September 30, 2018		2017	
	Pre-Modification Outstanding Number of Contracts	Post-Modification Outstanding Recorded Investment	Pre-Modification Outstanding Number of Contracts	Post-Modification Outstanding Recorded Investment
Loans secured by 1-4 family residential properties	3	\$ 121	1	\$ 112
Loans secured by nonfarm, nonresidential properties	—	—	1	426
Commercial and industrial loans	9	11,153	6	12,500
Total	12	\$ 11,274	8	\$ 13,038

Troubled Debt Restructurings of Contracts	Nine Months Ended September 30, 2018		2017	
	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Investment		Investment		Investment		Investment	
Construction, land development and other land loans	1	\$ 22	\$ 22	1	\$ 341	\$ 325		
Loans secured by 1-4 family residential properties	19	1,873	1,432	17	1,280	1,290		
Loans secured by nonfarm, nonresidential properties	—	—	—	1	426	426		
Commercial and industrial loans	15	22,899	21,791	7	12,744	12,744		
Consumer loans	3	4	4	—	—	—		
Total	38	\$ 24,798	\$ 23,249	26	\$ 14,791	\$ 14,785		

	Nine Months Ended September 30,			
	2018		2017	
	Number of	Recorded	Number of	Recorded
TDRs that Subsequently Defaulted	Contract	Investment	Contract	Investment
Construction, land development and other land loans	1	\$ 21	—	\$ —
Loans secured by 1-4 family residential properties	6	321	4	64
Commercial and industrial loans	6	13,985	2	—
Total	13	\$ 14,327	6	\$ 64

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.

The following tables detail LHFI classified as TDRs by loan type at September 30, 2018 and 2017 (\$ in thousands):

	September 30, 2018		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	\$—	\$ 26	\$26
Secured by 1-4 family residential properties	563	3,052	3,615
Secured by nonfarm, nonresidential properties	—	360	360
Commercial and industrial loans	1,783	29,636	31,419
Consumer loans	—	3	3
Other loans	—	540	540
Total TDRs	\$2,346	\$ 33,617	\$35,963

	September 30, 2017		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	\$—	\$ 272	\$272
Secured by 1-4 family residential properties	14	3,077	3,091
Secured by nonfarm, nonresidential properties	426	436	862
Commercial and industrial loans	—	20,153	20,153
Consumer loans	—	1	1
Total TDRs	\$440	\$ 23,939	\$24,379

#### Credit Quality Indicators

Trustmark's loan portfolio credit quality indicators focus on six key quality ratios that are compared against bank tolerances. The loan indicators are total classified outstanding, total criticized outstanding, nonperforming loans, nonperforming assets, delinquencies and net loan losses. Due to the homogenous nature of consumer loans, Trustmark does not assign a formal internal risk rating to each credit and therefore the criticized and classified measures are primarily composed of commercial loans.

In addition to monitoring portfolio credit quality indicators, Trustmark also measures how effectively the lending process is being managed and risks are being identified. As part of an ongoing monitoring process, Trustmark grades the commercial portfolio as it relates to credit file completion and financial statement exceptions, underwriting, collateral documentation and compliance with law as shown below:

• **Credit File Completeness and Financial Statement Exceptions** – evaluates the quality and condition of credit files in terms of content and completeness and focuses on efforts to obtain and document sufficient information to determine the quality and status of credits. Also included is an evaluation of the systems/procedures used to insure compliance with policy.

• **Underwriting** – evaluates whether credits are adequately analyzed, appropriately structured and properly approved within loan policy requirements. A properly approved credit is approved by adequate authority in a timely manner

with all conditions of approval fulfilled. Total policy exceptions measure the level of underwriting and other policy exceptions within a loan portfolio.

• **Collateral Documentation** – focuses on the adequacy of documentation to perfect Trustmark’s collateral position and substantiate collateral value. Collateral exceptions measure the level of documentation exceptions within a loan portfolio. Collateral exceptions occur when certain collateral documentation is either not present or not current.

• **Compliance with Law** – focuses on underwriting, documentation, approval and reporting in compliance with banking laws and regulations. Primary emphasis is directed to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Regulation O requirements and regulations governing appraisals.



## Commercial Credits

Trustmark has established a loan grading system that consists of ten individual credit risk grades (risk ratings) that encompass a range from loans where the expectation of loss is negligible to loans where loss has been established. The model is based on the risk of default for an individual credit and establishes certain criteria to delineate the level of risk across the ten unique credit risk grades. Credit risk grade definitions are as follows:

**Risk Rate (RR) 1 through RR 6** – Grades one through six represent groups of loans that are not subject to criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risk measured by using a variety of credit risk criteria such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.

**Other Assets Especially Mentioned (Special Mention) - (RR 7)** – a loan that has a potential weakness that if not corrected will lead to a more severe rating. This rating is for credits that are currently protected but potentially weak because of an adverse feature or condition that if not corrected will lead to a further downgrade.

**Substandard (RR 8)** – a loan that has at least one identified weakness that is well defined. This rating is for credits where the primary sources of repayment are not viable at the time of evaluation or where either the capital or collateral is not adequate to support the loan and the secondary means of repayment do not provide a sufficient level of support to offset the identified weakness. Loss potential exists in the aggregate amount of substandard loans but does not necessarily exist in individual loans.

**Doubtful (RR 9)** – a loan with an identified weakness that does not have a valid secondary source of repayment. Generally these credits have an impaired primary source of repayment and secondary sources are not sufficient to prevent a loss in the credit. The exact amount of the loss has not been determined at this time.

**Loss (RR 10)** – a loan or a portion of a loan that is deemed to be uncollectible.

By definition, credit risk grades special mention (RR 7), substandard (RR 8), doubtful (RR 9) and loss (RR 10) are criticized loans while substandard (RR 8), doubtful (RR 9) and loss (RR 10) are classified loans. These definitions are standardized by all bank regulatory agencies and are generally equally applied to each individual lending institution. The remaining credit risk grades are considered pass credits and are solely defined by Trustmark.

Each commercial loan is assigned a credit risk grade that is an indication for the likelihood of default and is not a direct indication of loss at default. The loss at default aspect of the subject risk ratings is neither uniform across the nine primary commercial loan groups or constant between the geographic areas. To account for the variance in the loss at default aspects of the risk rating system, the loss expectations for each risk rating are integrated into the allowance for loan loss methodology where the calculated loss at default is allotted for each individual risk rating with respect to the individual loan group and unique geographic area. The loss at default aspect of the reserve methodology is calculated each quarter as a component of the overall reserve factor for each risk grade by loan group and geographic area.

To enhance this process, nonaccrual relationships of \$500 thousand or more that are rated in one of the criticized categories are routinely reviewed to establish an expectation of loss, if any, and if such examination indicates that the level of reserve is not adequate to cover the expectation of loss, a special reserve or impairment is generally applied.

The distribution of the losses is accomplished by means of a loss distribution model that assigns a loss factor to each risk rating (1 to 9) in each commercial loan pool. A factor is not applied to risk rate 10 as loans classified as losses are charged off within the period that the loss is determined and are not carried on Trustmark's books over quarter-end.

The expected loss distribution is spread across the various risk ratings by the perceived level of risk for loss. The nine grade scale described above ranges from a negligible risk of loss to an identified loss across its breadth. The loss

distribution factors are graduated through the scale on a basis proportional to the degree of risk that appears manifest in each individual rating and assumes that migration through the loan grading system will occur.

Each loan officer assesses the appropriateness of the internal risk rating assigned to their credits on an ongoing basis. Trustmark's Asset Review area conducts independent credit quality reviews of the majority of Trustmark's commercial loan portfolio both on the underlying credit quality of each individual loan portfolio as well as the adherence to Trustmark's loan policy and the loan administration process. In general, Asset Review conducts reviews of each lending area within a six to eighteen month window depending on the overall credit quality results of the individual area.

In addition to the ongoing internal risk rate monitoring described above, Trustmark's Credit Quality Review Committee meets monthly and performs a review of all loans of \$100 thousand or more that are either delinquent thirty days or more or on nonaccrual. This review includes recommendations regarding risk ratings, accrual status, charge-offs and appropriate servicing officer as well as evaluation of problem credits for determination of TDRs. Quarterly, the Credit Quality Review Committee reviews and modifies continuous action plans for all credits risk rated seven or worse for relationships of \$100 thousand or more.

In addition, a semi-annual review of significant development, commercial construction, multi-family and non-owner occupied projects is performed. The review assesses each particular project with respect to location, project valuations, progress of completion, leasing status, current financial information, rents, operating expenses, cash flow, adherence to budget and projections and other information as applicable. Summary results are reviewed by Senior and Regional Credit Officers in addition to the Chief Credit Officer with a determination as to the appropriateness of existing risk ratings and accrual status.

#### Consumer Credits

Consumer LHFIs that do not meet a minimum custom credit score are reviewed quarterly by Management. The Retail Credit Review Committee reviews the volume and percentage of approvals that did not meet the minimum passing custom score by region, individual location, and officer to ensure that Trustmark continues to originate quality loans.

Trustmark monitors the levels and severity of past due consumer LHFIs on a daily basis through its collection activities. A detailed assessment of consumer LFI delinquencies is performed monthly at both a product and market level by delivery channel, which incorporates the perceived level of risk at time of underwriting.

The tables below present LHFIs by loan type and credit quality indicator at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018 Commercial LHFIs				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other					
land	\$961,316	\$ 78	\$ 4,512	\$ 208	\$966,114
Secured by 1-4 family residential					
properties	125,998	175	2,960	60	129,193
Secured by nonfarm, nonresidential					
properties	2,259,388	3,052	31,302	484	2,294,226
Other real estate secured	452,095	454	515	—	453,064
Commercial and industrial loans	1,490,431	9,721	63,936	1,834	1,565,922
Consumer loans	—	—	—	—	—

Edgar Filing: TRUSTMARK CORP - Form 10-Q

State and other political subdivision loans	913,286	5,250	10,642	—	929,178
Other loans	458,118	15,597	10,469	77	484,261
Total	\$6,660,632	\$ 34,327	\$ 124,336	\$ 2,663	\$6,821,958

19

---

	Consumer LHFI				Subtotal	Total LHFI
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual		
<b>Loans secured by real estate:</b>						
<b>Construction, land development and other</b>						
land	\$65,028	\$3	\$ —	\$ 346	\$65,377	\$1,031,491
<b>Secured by 1-4 family residential</b>						
properties	1,651,019	6,566	447	13,804	1,671,836	1,801,029
<b>Secured by nonfarm, nonresidential</b>						
properties	63	—	—	—	63	2,294,289
Other real estate secured	623	—	—	—	623	453,687
Commercial and industrial loans	—	—	—	—	—	1,565,922
Consumer loans	180,503	1,721	258	227	182,709	182,709
State and other political subdivision loans	—	—	—	—	—	929,178
Other loans	4,464	—	—	—	4,464	488,725
<b>Total</b>	<b>\$1,901,700</b>	<b>\$8,290</b>	<b>\$ 705</b>	<b>\$ 14,377</b>	<b>\$1,925,072</b>	<b>\$8,747,030</b>

	December 31, 2017 Commercial LHFI				Subtotal
	Pass - Categories 1-6	Special Mention Category 7	Substandard - Category 8	Doubtful Category 9	
<b>Loans secured by real estate:</b>					
<b>Construction, land development and other</b>					
land	\$922,563	\$ 316	\$ 3,780	\$ 222	\$926,881
<b>Secured by 1-4 family residential</b>					
properties	127,405	134	4,948	76	132,563
<b>Secured by nonfarm, nonresidential</b>					
properties	2,135,749	6,684	50,785	527	2,193,745
Other real estate secured	517,036	—	517	—	517,553
Commercial and industrial loans	1,437,590	28,780	103,089	886	1,570,345
Consumer loans	—	—	—	—	—
State and other political subdivision loans	936,420	5,850	10,213	—	952,483
Other loans	478,083	—	16,390	108	494,581

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Total \$6,554,846 \$41,764 \$ 189,722 \$ 1,819 \$6,788,151

	Consumer LHFI				Subtotal	Total LHFI
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual		
Loans secured by real estate:						
Construction, land development and other						
land	\$60,240	\$342	\$—	\$ 161	\$60,743	\$987,624
Secured by 1-4 family residential						
properties	1,516,691	7,874	1,809	16,374	1,542,748	1,675,311
Secured by nonfarm, nonresidential						
properties	78	—	—	—	78	2,193,823
Other real estate secured	403	—	—	—	403	517,956
Commercial and industrial loans	—	—	—	—	—	1,570,345
Consumer loans	169,146	2,396	242	134	171,918	171,918
State and other political subdivision loans	—	—	—	—	—	952,483
Other loans	5,926	—	—	—	5,926	500,507
Total	\$1,752,484	\$10,612	\$2,051	\$ 16,669	\$1,781,816	\$8,569,967

20

### Past Due Loans Held for Sale (LHFS)

LHFS past due 90 days or more totaled \$34.1 million and \$35.5 million at September 30, 2018 and December 31, 2017, respectively. LHFS past due 90 days or more are serviced loans eligible for repurchase, which are fully guaranteed by the Government National Mortgage Association (GNMA). GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings.

Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first nine months of 2018 or 2017.

### Allowance for Loan Losses, LHFI

Trustmark's allowance for loan loss methodology for commercial LHFI is based upon regulatory guidance from its primary regulator and GAAP. The methodology segregates the commercial purpose and commercial construction LHFI portfolios into nine separate loan types (or pools) which have similar characteristics such as repayment, collateral and risk profiles. The nine basic loan pools are further segregated into Trustmark's five key market regions, Alabama, Florida, Mississippi, Tennessee and Texas, to take into consideration the uniqueness of each market. A 10-point risk rating system is utilized for each separate loan pool to apply a reserve factor consisting of quantitative and qualitative components to determine the needed allowance by each loan type. As a result, there are 450 risk rate factors for commercial loan types. The nine separate pools are shown below:

#### Commercial Purpose LHFI

- Real Estate – Owner-Occupied
- Real Estate – Non-Owner Occupied
- Working Capital
- Non-Working Capital
- Land
- Lots and Development
- Political Subdivisions

#### Commercial Construction LHFI

- 1 to 4 Family
- Non-1 to 4 Family

The quantitative factors of the allowance methodology reflect a twelve-quarter rolling average of net charge-offs by loan type within each key market region. This allows for a greater sensitivity to current trends, such as economic changes, as well as current loss profiles and creates a more accurate depiction of historical losses.

Qualitative factors used in the allowance methodology include the following:

- National and regional economic trends and conditions

• Impact of recent performance trends

• Experience, ability and effectiveness of management

• Adherence to Trustmark's loan policies, procedures and internal controls

• Collateral, financial and underwriting exception trends

21

---



- Credit concentrations
- Loan facility risk
- Acquisitions
- Catastrophe

Each qualitative factor is converted to a scale ranging from 0 (No risk) to 100 (High Risk), other than the last two factors, which are applied on a dollar-for-dollar basis to ensure that the combination of such factors is proportional. The resulting ratings from the individual factors are weighted and summed to establish the weighted-average qualitative factor within each key market region.

The allowance for loan loss methodology segregates the consumer LHFII portfolio into homogeneous pools of loans that contain similar structure, repayment, collateral and risk profiles. These homogeneous pools of loans are shown below:

- Residential Mortgage
- Direct Consumer
- Junior Lien on 1-4 Family Residential Properties
- Credit Cards
- Overdrafts

The historical loss experience for these pools is determined by calculating a 12-quarter rolling average of net charge-offs, which is applied to each pool to establish the quantitative aspect of the methodology. Where, in Management's estimation, the calculated loss experience does not fully cover the anticipated loss for a pool, an estimate is also applied to each pool to establish the qualitative aspect of the methodology, which represents the perceived risks across the loan portfolio at the current point in time. This qualitative methodology utilizes five separate factors made up of unique components that when weighted and combined produce an estimated level of reserve for each of the loan pools. The five qualitative factors include the following:

- Economic indicators
- Performance trends
- Management experience
- Credit concentrations
- Loan policy exceptions

The risk measure for each factor is converted to a scale ranging from 0 (No risk) to 100 (High Risk) to ensure that the combination of such factors is proportional. The determination of the risk measurement for each qualitative factor is done for all markets combined. The resulting estimated reserve factor is then applied to each pool.

The resulting ratings from the individual factors are weighted and summed to establish the weighted-average qualitative factor of a specific loan portfolio. This weighted-average qualitative factor is then applied over the five loan pools.

Trustmark's loan policy dictates the guidelines to be followed in determining when a loan is charged off. Commercial purpose loans are charged off when a determination is made that the loan is uncollectible and continuance as a bankable asset is not warranted or an impairment evaluation indicates that a value adjustment is necessary. Consumer loans secured by 1-4 family residential real estate are generally charged off or written down when the credit becomes severely delinquent and the balance exceeds the fair value of the property less costs to sell. Non-real estate consumer purpose loans, both secured and unsecured, are generally charged off in full during the month in which the loan becomes 120 days past due. Credit card loans are generally charged off in full when the loan becomes 180 days past due.



The following tables detail the balance in the allowance for loan losses, LHFII allocated to each loan type segmented by the impairment evaluation methodology used at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$—	\$ 8,414	\$8,414
Secured by 1-4 family residential properties	43	9,265	9,308
Secured by nonfarm, nonresidential properties	78	24,781	24,859
Other real estate secured	—	2,949	2,949
Commercial and industrial loans	13,869	19,448	33,317
Consumer loans	—	3,394	3,394
State and other political subdivision loans	683	510	1,193
Other loans	1,076	4,364	5,440
Total allowance for loan losses, LHFII	\$ 15,749	\$ 73,125	\$88,874

	December 31, 2017		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$75	\$ 7,790	\$7,865
Secured by 1-4 family residential properties	1,331	9,543	10,874
Secured by nonfarm, nonresidential properties	165	23,263	23,428
Other real estate secured	—	2,790	2,790
Commercial and industrial loans	131	22,720	22,851
Consumer loans	—	3,470	3,470
State and other political subdivision loans	—	789	789
Other loans	41	4,625	4,666
Total allowance for loan losses, LHFII	\$1,743	\$ 74,990	\$76,733

The following tables detail LHFII by loan type related to each balance in the allowance for loan losses, LHFII segregated by the impairment evaluation methodology used at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018		
	LHFII Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$ 1,572	\$ 1,029,919	\$ 1,031,491
Secured by 1-4 family residential properties	3,740	1,797,289	1,801,029
Secured by nonfarm, nonresidential properties	3,370	2,290,919	2,294,289
Other real estate secured	—	453,687	453,687
Commercial and industrial loans	33,702	1,532,220	1,565,922
Consumer loans	3	182,706	182,709
State and other political subdivision loans	8,762	920,416	929,178
Other loans	1,306	487,419	488,725

Total	\$52,455	\$8,694,575	\$8,747,030
-------	----------	-------------	-------------

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	December 31, 2017		
	Individual	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$ 1,405	\$ 986,219	\$ 987,624
Secured by 1-4 family residential properties	4,736	1,670,575	1,675,311
Secured by nonfarm, nonresidential properties	10,423	2,183,400	2,193,823
Other real estate secured	—	517,956	517,956
Commercial and industrial loans	31,799	1,538,546	1,570,345
Consumer loans	17	171,901	171,918
State and other political subdivision loans	—	952,483	952,483
Other loans	556	499,951	500,507
Total	\$48,936	\$ 8,521,031	\$ 8,569,967

Changes in the allowance for loan losses, LHFI were as follows for the periods presented (\$ in thousands):

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Balance at beginning of period	\$ 83,566	\$ 76,184	\$ 76,733	\$ 71,265
Transfers (1)	772	—	1,554	—
Loans charged-off	(7,017 )	(2,752 )	(12,980 )	(9,072 )
Recoveries	2,880	3,228	7,766	8,784
Net (charge-offs) recoveries	(4,137 )	476	(5,214 )	(288 )
Provision for loan losses, LHFI	8,673	3,672	15,801	9,355
Balance at end of period	\$ 88,874	\$ 80,332	\$ 88,874	\$ 80,332

(1) The allowance for loan losses balance related to the remaining loans acquired in the Bay Bank & Trust Company (Bay Bank) merger on March 16, 2012, which were transferred from acquired impaired loans to LHFI during the second quarter of 2018, and the remaining loans acquired in the Heritage Banking Group (Heritage) acquisition on April 15, 2011 and the Reliance merger on April 7, 2017, which were transferred from acquired impaired loans to LHFI during the third quarter of 2018.

The following tables detail changes in the allowance for loan losses, LHFI by loan type for the periods ended September 30, 2018 and 2017 (\$ in thousands):

	2018				Provision for	Balance
	Balance	Transfers	Charge-offs	Recoveries		
	January 1,	(1)			Loan Losses	September 30,
Loans secured by real estate:						
Construction, land development and other land	\$ 7,865	\$ 584	\$ (123 )	\$ 1,039	\$ (951 )	\$ 8,414
Secured by 1-4 family residential properties	10,874	182	(1,435 )	439	(752 )	9,308
Secured by nonfarm, nonresidential properties	23,428	446	(1,117 )	120	1,982	24,859
Other real estate secured	2,790	291	—	17	(149 )	2,949

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Commercial and industrial loans	22,851	46	(4,658 )	2,285	12,793	33,317
Consumer loans	3,470	5	(1,585 )	1,545	(41 )	3,394
State and other political subdivision loans	789	—	—	—	404	1,193
Other loans	4,666	—	(4,062 )	2,321	2,515	5,440
Total allowance for loan losses, LHFI	\$76,733	\$ 1,554	\$ (12,980 )	\$ 7,766	\$ 15,801	\$ 88,874

(1) The allowance for loan losses balance related to the remaining loans acquired in the Bay Bank merger on March 16, 2012, which were transferred from acquired impaired loans to LHFI during the second quarter of 2018, and the remaining loans acquired in the Heritage acquisition on April 15, 2011 and the Reliance merger on April 7, 2017, which were transferred from acquired impaired loans to LHFI during the third quarter of 2018.

	2017			Provision for Loan Losses	Balance  September 30,
	Balance				
	January 1,	Charge-offs	Recoveries		
<b>Loans secured by real estate:</b>					
Construction, land development and other land loans	\$9,085	\$ (79 )	\$ 1,257	\$ (1,615 )	\$ 8,648
Secured by 1-4 family residential properties	10,347	(753 )	1,429	(743 )	10,280
Secured by nonfarm, nonresidential properties	20,967	(50 )	289	7,542	28,748
Other real estate secured	2,263	—	31	1,111	3,405
Commercial and industrial loans	22,011	(2,624 )	1,813	(1,420 )	19,780
Consumer loans	3,241	(1,809 )	1,427	1,597	4,456
State and other political subdivision loans	859	—	—	(48 )	811
Other loans	2,492	(3,757 )	2,538	2,931	4,204
Total allowance for loan losses, LHFI	\$71,265	\$ (9,072 )	\$ 8,784	\$ 9,355	\$ 80,332

#### Note 5 – Acquired Loans

Trustmark's loss-share agreement with the FDIC covering the acquired covered loans secured by 1-4 family residential properties will expire in 2021.

Loans acquired in the Reliance merger completed on April 7, 2017 were evaluated using a fair value process to determine the degree of credit deterioration since origination and the collectibility of contractually required payments. Approximately \$7.9 million of the loans acquired in the Reliance merger exhibited evidence of significant credit deterioration since origination and for which it was probable at acquisition that Trustmark would not be able to collect all contractually required payments. These loans were accounted for as acquired impaired loans under FASB ASC Topic 310-30.

At September 30, 2018 and December 31, 2017, acquired loans consisted of the following (\$ in thousands):

	September 30, 2018	December 31, 2017
<b>Loans secured by real estate:</b>		
Construction, land development and other land	\$ 6,657	\$ 23,586
Secured by 1-4 family residential properties	25,274	61,751
Secured by nonfarm, nonresidential properties	66,865	114,694
Other real estate secured	8,507	16,746
Commercial and industrial loans	16,610	31,506
Consumer loans	1,514	2,600
Other loans	7,188	10,634
Acquired loans	132,615	261,517
Allowance for loan losses, acquired loans	(1,714 )	(4,079 )
Net acquired loans	\$ 130,901	\$ 257,438





The following table presents changes in the net carrying value of the acquired loans for the periods presented (\$ in thousands):

	Acquired	
	Not ASC	
	Acquired	310-30
	Impaired	(1)
Carrying value, net at January 1, 2017	\$218,107	\$42,743
Transfers (2)	—	(36,719)
Additions (3)	7,899	109,548
Accretion to interest income	14,924	1,578
Payments received, net	(68,317)	(39,208)
Other (4)	(361)	(74)
Change in allowance for loan losses, acquired loans	7,318	—
Carrying value, net at December 31, 2017	179,570	77,868
Transfers (5)(2)	(26,497)	(43,922)
Accretion to interest income	7,870	782
Payments received, net	(50,940)	(16,096)
Other (4)	(173)	74
Change in allowance for loan losses, acquired loans	2,365	—
Carrying value, net at September 30, 2018	\$112,195	\$18,706

- (1) “Acquired Not ASC 310-30” loans consist of loans that are not in scope for FASB ASC Topic 310-30.
- (2) “Acquired Not ASC 310-30” loans transferred to LHFI due to the discount on these loans being fully amortized.
- (3) Loans acquired in the Reliance merger on April 7, 2017.
- (4) Includes miscellaneous timing adjustments as well as acquired loan terminations through foreclosure, charge-off and other terminations.
- (5) During the second quarter of 2018, Trustmark transferred the remaining loans acquired in the Bay Bank merger on March 16, 2012 from acquired impaired loans to LHFI. During the third quarter of 2018, Trustmark transferred the remaining loans acquired in the Heritage acquisition on April 15, 2011 and the Reliance merger on April 7, 2017 from acquired impaired loans to LHFI.

Under FASB ASC Topic 310-30, the accretable yield is the excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans and is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. The following table presents changes in the accretable yield for the periods presented (\$ in thousands):

	Nine Months Ended	
	September 30,	
	2018	2017
Accretable yield at beginning of period	\$(31,426)	\$(38,918)
Accretion to interest income	7,870	11,021
Additions due to acquisitions (1)	—	(784)
Disposals, net	3,452	1,759

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Transfers (2)	5,874	—
Reclassification from nonaccretable difference (3)	(4,204 )	(7,204 )
Accretable yield at end of period	\$(18,434)	\$(34,126)

(1) Accretable yield on loans acquired from Reliance on April 7, 2017.

(2) During the second quarter of 2018, Trustmark transferred the remaining loans acquired in the Bay Bank merger on March 16, 2012 from acquired impaired loans to LHFI. During the third quarter of 2018, Trustmark transferred the remaining loans acquired in the Heritage acquisition on April 15, 2011 and the Reliance merger on April 7, 2017 from acquired impaired loans to LHFI.

(3) Reclassifications from nonaccretable difference are due to lower loss expectations and improvements in expected cash flows.

26

---

The following tables present the components of the allowance for loan losses on acquired loans for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Balance at beginning of period	\$3,046	\$7,423	\$4,079	\$11,397
Transfers (1)	(772 )	—	(1,554 )	—
Net (charge-offs) recoveries	(93 )	(2 )	(53 )	193
Provision for loan losses, acquired loans	(467 )	(1,653 )	(758 )	(5,822 )
Balance at end of period	\$1,714	\$5,768	\$1,714	\$5,768

(1) The allowance for loan losses balance related to the remaining loans acquired in the Bay Bank merger, which were transferred from acquired impaired loans to LHFI during the second quarter of 2018, and the remaining loans acquired in the Heritage acquisition and the Reliance merger, which were transferred from acquired impaired loans to LHFI during the third quarter of 2018.

As discussed in Note 4 - Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI, Trustmark has established a loan grading system that consists of ten individual credit risk grades (risk ratings) that encompass a range from loans where the expectation of loss is negligible to loans where loss has been established. The model is based on the risk of default for an individual credit and establishes certain criteria to segregate the level of risk across the ten unique risk ratings. These credit quality measures are unique to commercial loans. Credit quality for consumer loans is based on individual credit scores, aging status of the loan and payment activity.

The tables below present the acquired loans by loan type and credit quality indicator at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018				
	Commercial Loans				
	Pass -	Special Mention -	Substandard -	Doubtful -	
	Category 6	Category 7	Category 8	Category 9	Subtotal
Loans secured by real estate:					
Construction, land development					
and other land	\$5,541	\$ 25	\$ 296	\$ 68	\$ 5,930
Secured by 1-4 family					
residential properties	5,594	47	645	—	6,286
Secured by nonfarm,					
nonresidential properties	51,123	—	15,223	519	66,865
Other real estate secured	7,906	—	177	424	8,507
Commercial and industrial loans	7,366	—	6,832	2,412	16,610
Consumer loans	—	—	—	—	—
Other loans	4,536	—	2,652	—	7,188
Total acquired loans	\$82,066	\$ 72	\$ 25,825	\$ 3,423	\$ 111,386

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Consumer Loans				Subtotal	Total Acquired Loans
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual (1)		
Loans secured by real estate:						
Construction, land development and other land	\$ 652	\$ 75	\$ —	\$ —	\$ 727	\$ 6,657
Secured by 1-4 family residential properties	17,676	1,044	268	—	18,988	25,274
Secured by nonfarm, nonresidential properties	—	—	—	—	—	66,865
Other real estate secured	—	—	—	—	—	8,507
Commercial and industrial loans	—	—	—	—	—	16,610
Consumer loans	1,473	41	—	—	1,514	1,514
Other loans	—	—	—	—	—	7,188
Total acquired loans	\$ 19,801	\$ 1,160	\$ 268	\$ —	\$ 21,229	\$ 132,615

(1) Acquired loans not accounted for under FASB ASC Topic 310-30.

27

December 31, 2017					
Commercial Loans					
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Loans secured by real estate:					
Construction, land development					
and other land	\$ 17,150	\$ 234	\$ 4,690	\$ 264	\$ 22,338
Secured by 1-4 family					
residential properties	14,021	298	3,029	—	17,348
Secured by nonfarm,					
nonresidential properties	95,147	1,400	17,583	530	114,660
Other real estate secured	12,730	102	3,031	477	16,340
Commercial and industrial					
loans	22,157	15	7,585	1,749	31,506
Consumer loans	—	—	—	—	—
Other loans	5,874	18	4,742	—	10,634
<b>Total acquired loans</b>	<b>\$ 167,079</b>	<b>\$ 2,067</b>	<b>\$ 40,660</b>	<b>\$ 3,020</b>	<b>\$ 212,826</b>

Consumer Loans						
Past Due						
	Current	30-89 Days	Past Due 90 Days or More	Nonaccrual (1)	Subtotal	Total Acquired Loans
Loans secured by real estate:						
Construction, land development						
and other land	\$ 1,188	\$ 46	\$ 14	\$ —	\$ 1,248	\$ 23,586
Secured by 1-4 family						
residential properties	42,008	1,687	584	124	44,403	61,751
Secured by nonfarm,						
nonresidential properties	34	—	—	—	34	114,694
Other real estate secured	406	—	—	—	406	16,746
Commercial and industrial						
loans	—	—	—	—	—	31,506
Consumer loans	2,428	172	—	—	2,600	2,600
Other loans	—	—	—	—	—	10,634
<b>Total acquired loans</b>	<b>\$ 46,064</b>	<b>\$ 1,905</b>	<b>\$ 598</b>	<b>\$ 124</b>	<b>\$ 48,691</b>	<b>\$ 261,517</b>

Edgar Filing: TRUSTMARK CORP - Form 10-Q

(1) Acquired loans not accounted for under FASB ASC Topic 310-30.

The following tables provide an aging analysis of contractually past due and nonaccrual acquired loans by loan type at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018				Nonaccrual (2)	Current Loans	Total Acquired Loans
	Past Due		90 Days or More (1)	Total			
	30-59 Days	60-89 Days					
Loans secured by real estate:							
Construction, land development							
and other land	\$ 103	\$ —	\$ 25	\$ 128	\$ —	\$ 6,529	\$ 6,657
Secured by 1-4 family residential							
properties	703	341	288	1,332	—	23,942	25,274
Secured by nonfarm, nonresidential							
properties	297	—	1,475	1,772	—	65,093	66,865
Other real estate secured	15	—	—	15	—	8,492	8,507
Commercial and industrial loans	—	—	607	607	—	16,003	16,610
Consumer loans	39	2	—	41	—	1,473	1,514
Other loans	—	—	—	—	—	7,188	7,188
Total acquired loans	\$ 1,157	\$ 343	\$ 2,395	\$ 3,895	\$ —	\$ 128,720	\$ 132,615

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

(2) Acquired loans not accounted for under FASB ASC Topic 310-30.

December 31, 2017							
	Past Due				Nonaccrual (2)	Current Loans	Total Acquired Loans
	30-59 Days	60-89 Days	90 Days or More (1)	Total			
Loans secured by real estate:							
Construction, land development and other land							
	\$34	\$ 90	\$ 861	\$985	\$ —	\$22,601	\$ 23,586
Secured by 1-4 family residential properties							
	1,691	614	654	2,959	302	58,490	61,751
Secured by nonfarm, nonresidential properties							
	467	73	898	1,438	—	113,256	114,694
Other real estate secured	132	—	—	132	—	16,614	16,746
Commercial and industrial loans	—	—	—	—	2	31,504	31,506
Consumer loans	16	156	—	172	—	2,428	2,600
Other loans	—	—	21	21	—	10,613	10,634
<b>Total acquired loans</b>	<b>\$2,340</b>	<b>\$ 933</b>	<b>\$ 2,434</b>	<b>\$5,707</b>	<b>\$ 304</b>	<b>\$255,506</b>	<b>\$ 261,517</b>

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

(2) Acquired loans not accounted for under FASB ASC Topic 310-30.

## Note 6 – Mortgage Banking

### Mortgage Servicing Rights

The activity in the mortgage servicing rights (MSR) is detailed in the table below for the periods presented (\$ in thousands):

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Balance at beginning of period	\$84,269	\$80,239
Origination of servicing assets	12,248	11,630
Change in fair value:		
Due to market changes	13,879	(2,218 )
Due to run-off	(9,022 )	(8,174 )
<b>Balance at end of period</b>	<b>\$101,374</b>	<b>\$81,477</b>

Trustmark determines the fair value of the MSR using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. Trustmark considers the conditional prepayment rate (CPR), which is an estimated loan prepayment rate that uses historical prepayment rates for previous loans similar to the loans being evaluated, and the discount rate in determining the fair value of the MSR. An increase in either the CPR or discount rate assumption will result in a decrease in the fair value of the MSR, while a decrease in either assumption will result in an increase in the fair value of the MSR. At September 30, 2018, the fair value of the MSR included an assumed average prepayment speed of 6.86 CPR and an average discount rate of 10.04% compared to an assumed average prepayment speed of 9.25 CPR and an average discount rate of 10.28% at September 30, 2017.

#### Mortgage Loans Serviced/Sold

During the first nine months of 2018 and 2017, Trustmark sold \$820.6 million and \$871.9 million, respectively, of residential mortgage loans. Pretax gains on these sales were recorded to noninterest income in mortgage banking, net and totaled \$16.4 million for the first nine months of 2018 compared to \$13.6 million for the first nine months of 2017. The table below details the mortgage loans sold and serviced for others at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018	December 31, 2017
Federal National Mortgage Association	\$4,174,961	\$4,128,614
Government National Mortgage Association	2,492,009	2,421,456
Federal Home Loan Mortgage Corporation	69,617	47,071
Other	22,804	26,864
<b>Total mortgage loans sold and serviced for others</b>	<b>\$6,759,391</b>	<b>\$6,624,005</b>



Trustmark is subject to losses in its loan servicing portfolio due to loan foreclosures. Trustmark has obligations to either repurchase the outstanding principal balance of a loan or make the purchaser whole for the economic benefits of a loan if it is determined that the loan sold was in violation of representations or warranties made by Trustmark at the time of the sale, herein referred to as mortgage loan servicing putback expenses. Such representations and warranties typically include those made regarding loans that had missing or insufficient file documentation, loans that do not meet investor guidelines, loans in which the appraisal does not support the value and/or loans obtained through fraud by the borrowers or other third parties. Generally, putback requests may be made until the loan is paid in full. However, mortgage loans delivered to Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) on or after January 1, 2013 are subject to the Lending and Selling Representations and Warranties Framework updated in May 2014, which provides certain instances in which FNMA and FHLMC will not exercise their remedies, including a putback request, for breaches of certain selling representations and warranties, such as payment history and quality control review.

When a putback request is received, Trustmark evaluates the request and takes appropriate actions based on the nature of the request. Trustmark is required by FNMA and FHLMC to provide a response to putback requests within 60 days of the date of receipt. Currently, putback requests primarily relate to 2009 through 2013 vintage mortgage loans. The total mortgage loan servicing putback expenses are included in other expense.

Changes in the reserve for mortgage loan servicing putback expense for mortgage loans were as follows for the periods presented (\$ in thousands):

	Nine Months Ended September 30, 2018    2017	
Balance at beginning of period	\$1,000	\$1,130
Provision for putback expenses	—	164
Other (1)	—	706
Balance at end of period	\$1,000	\$2,000

(1) Includes fair value adjustments for loans transferred due to underwriting issues as well as adjustments based on Trustmark's mortgage loan servicing putback reserve analysis.

There is inherent uncertainty in reasonably estimating the requirement for reserves against potential future mortgage loan servicing putback expenses. Future putback expenses are dependent on many subjective factors, including the review procedures of the purchasers and the potential refinance activity on loans sold with servicing released and the subsequent consequences under the representations and warranties. Trustmark believes that it has appropriately reserved for potential mortgage loan servicing putback requests.

#### Note 7 – Other Real Estate

At September 30, 2018, Trustmark's geographic other real estate distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. The ultimate recovery of a substantial portion of the carrying amount of other real estate is susceptible to changes in market conditions in these areas.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

For the periods presented, changes and gains (losses), net on other real estate were as follows (\$ in thousands):

	Nine Months Ended September 30,	
	2018	2017
Balance at beginning of period	\$43,228	\$62,051
Additions (1)	10,368	7,481
Disposals	(15,264)	(18,583)
Write-downs	(1,857 )	(2,593 )
Balance at end of period	\$36,475	\$48,356
Gains (losses), net on the sale of other real estate included in		
other real estate expense	\$1,226	\$1,722

(1) Includes \$475 thousand of other real estate acquired in the Reliance merger on April 7, 2017.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

At September 30, 2018 and December 31, 2017, other real estate by type of property consisted of the following (\$ in thousands):

	September 30, 2018	December 31, 2017
Construction, land development and other land properties	\$ 18,976	\$ 27,491
1-4 family residential properties	5,266	5,081
Nonfarm, nonresidential properties	12,050	10,468
Other real estate properties	183	188
Total other real estate	\$ 36,475	\$ 43,228

At September 30, 2018 and December 31, 2017, other real estate by geographic location consisted of the following (\$ in thousands):

	September 30, 2018	December 31, 2017
Alabama	\$ 7,526	\$ 11,714
Florida	8,931	13,937
Mississippi (1)	18,191	14,260
Tennessee (2)	1,083	2,535
Texas	744	782
Total other real estate	\$ 36,475	\$ 43,228

(1)Mississippi includes Central and Southern Mississippi Regions

(2)Tennessee includes Memphis, Tennessee and Northern Mississippi Regions

Note 8 – Deposits

At September 30, 2018 and December 31, 2017, deposits consisted of the following (\$ in thousands):

	September 30, 2018	December 31, 2017
Noninterest-bearing demand	\$2,786,539	\$2,978,074
Interest-bearing demand	2,739,245	2,432,814
Savings	3,538,125	3,408,183
Time	1,893,001	1,758,441
Total	\$10,956,910	\$10,577,512

Note 9 – Securities Sold Under Repurchase Agreements

Trustmark utilizes securities sold under repurchase agreements as a source of borrowing in connection with overnight repurchase agreements offered to commercial deposit customers by using its unencumbered investment securities as collateral. Trustmark accounts for its securities sold under repurchase agreements as secured borrowings in accordance with FASB ASC Topic 860-30, “Transfers and Servicing – Secured Borrowing and Collateral.” Securities sold under repurchase agreements are stated at the amount of cash received in connection with the transaction. Trustmark monitors collateral levels on a continual basis and may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under repurchase agreements were secured by securities with a carrying amount of \$167.1 million and \$200.9 million at September 30, 2018 and December 31, 2017, respectively. Trustmark’s repurchase agreements are transacted under master repurchase agreements that give Trustmark, in the event of default by the counterparty, the right of offset with the same counterparty. As of September 30, 2018, all repurchase agreements were short-term and consisted primarily of sweep repurchase arrangements, under which excess deposits are “swept” into overnight repurchase agreements with Trustmark. The following table presents the securities sold under repurchase agreements by collateral pledged at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018	December 31, 2017
Mortgage-backed securities		
Other residential mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	\$ 41,650	\$ 68,246
Commercial mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	48,861	50,448
Total securities sold under repurchase agreements	\$ 90,511	\$ 118,694

## Note 10 – Revenue from Contracts with Customers

Effective January 1, 2018, Trustmark accounts for revenue from contracts with customers in accordance with FASB ASC Topic 606, “Revenue from Contracts with Customers,” which provides that revenue be recognized in a manner that depicts the transfer of goods or services to a customer in an amount that reflects the consideration Trustmark expects to be entitled to in exchange for those goods or services. Revenue from contracts with customers is recognized either over time in a manner that depicts Trustmark’s performance, or at a point in time when control of the goods or services are transferred to the customer. Trustmark’s noninterest income, excluding all of mortgage banking, net and securities gains (losses), net and portions of bank card and other fees and other income, are considered within the scope of FASB ASC Topic 606. Gains or losses on the sale of other real estate, which are included in Trustmark’s noninterest expense as other real estate expense, are also within the scope of FASB ASC Topic 606.

### General Banking Division

#### Service Charges on Deposit Accounts

In general, deposit accounts represent contracts with customers with no fixed duration and can be terminated or modified by either party at any time without compensation to the other party. According to FASB ASC Topic 606, a contract that can be terminated by either party without compensation does not exist for periods beyond the then-current period. Therefore, deposit contracts are considered to renew day-to-day if not minute-to-minute.

Deposit contracts have a single continuous or stand-ready service obligation whereby Trustmark makes customer funds available for use by the customer as and when the customer chooses as well as other services such as statement rendering and online banking. The specific services provided vary based on the type of deposit account. These services are not individually distinct, but are distinct as a group, and therefore, constitute a single performance obligation which is satisfied over time and qualifies as a series of distinct service periods.

Trustmark receives a fixed service charge amount as consideration monthly for services rendered. The service charge amount varies based on the type of deposit account. Some of the service charge revenue is subject to refund provisions, which is variable consideration under the guidelines of FASB ASC Topic 606. Trustmark has elected the ‘as-invoiced’ practical expedient permitted under FASB ASC Topic 606 for recognition of service charge revenue. Therefore, revenue is recognized at the time and in the amount the customer is charged. The service charge revenue is presented net of refunded amounts on Trustmark’s consolidated statements of income.

Services related to non-sufficient funds, overdrafts, excess account activity, stop payments, dormant accounts, etc. are considered optional purchases for a deposit contract because there is no performance obligation for Trustmark until the service is requested by the customer or the occurrence of a triggering event. Fees for these services are fixed amounts and are charged to the customer when the service is performed. Revenue is recognized at the time the customer is charged.

#### Bank Card and Other Fees

Revenue from contracts with customers in bank card and other fees includes income related to interchange fees and various other contracts which primarily consists of contracts with a single performance obligation that is satisfied at a point in time. Trustmark receives a fixed consideration amount once the performance obligation is completed for these contracts. Trustmark reports revenue from these contracts net of amounts refunded or due to a third party.

#### Interchange Fees

As both a debit and credit card issuer, Trustmark receives an interchange fee for every card transaction completed by its customers with a merchant. Trustmark receives two types of interchange fees: point-of-sale transactions in which the customer must enter the PIN associated with the card to complete the transaction (a debit card transaction), and signature transactions in which the signature of the customer is required to complete the transaction (a credit card transaction).

Trustmark, as the card issuing or settlement bank, has a contract (implied based on customary business practices) with the payment network in which Trustmark has a single continuous service obligation to make funds available for settlement of the card transaction. Trustmark's service obligation is satisfied over time and qualifies as a series of distinct service periods. Trustmark receives interchange fees as consideration for services rendered in the amount established by the respective payment network. The interchange fees are established by the payment network based on the type of transaction and is posted on their website. Trustmark receives and records interchange fee revenue from the payment networks daily net of all fees and amounts due to the payment network.

## Other Income

Revenue from contracts with customers in other income includes income related to cash management services and other contracts with a single performance obligation that is satisfied at a point in time. Trustmark receives a fixed consideration amount once the performance obligation is completed for these contracts. Trustmark reports revenue from these contracts net of amounts refunded or due to a third party.

## Cash Management Services

Trustmark provides cash management services through the delivery of various products and services offered to its business and municipal customers including various departments of state, city and local governments, universities and other non-profit entities. Similar to the deposit account contracts, the cash management contracts primarily represent contracts with customers with no fixed duration and can be terminated or modified by either party at any time without compensation to the other party. Therefore, cash management contracts are generally considered to renew day-to-day if not minute-to-minute.

Cash management contracts have a single continuous or stand-ready service obligation whereby Trustmark makes a specific service or group of services available for use by the customer as and when the customer chooses. The specific services provided vary based on the type of account or product. These services are not individually distinct, but are distinct as a group, and therefore, constitute a single performance obligation which is satisfied over time and qualifies as a series of distinct service periods.

Trustmark receives a set service charge or maintenance fee amount as consideration monthly for services rendered. However, some of the fees are based on the number of transactions that occur (i.e. flat fee for a set number of transactions per month then an additional charge for each transaction after that) or the average daily account balance maintained by the customer during the month and a small amount of the cash management fee revenue is subject to refund provisions. These fees represent variable consideration under the guidelines of FASB ASC Topic 606. Trustmark has elected the 'as-invoiced' practical expedient permitted under FASB ASC Topic 606 for recognition of cash management fee revenue. The cash management revenue is presented net of any refunded amounts on Trustmark's consolidated statements of income.

Trustmark's merchant services provider contracts directly with Trustmark business customers and provides Trustmark's merchant customers card processing equipment and transaction processing services. Trustmark's contract with the merchant services provider has a single-continuous service obligation to provide customer referrals for potential new accounts which is satisfied over time and qualifies as a series of distinct service periods. Trustmark receives a flat fee for each new account established and a percentage of the residual income related to transactions processed for Trustmark's merchant customers each month as provided in the contract. Under the guidelines of FASB ASC Topic 606, the fee received for each new account and the profit sharing represent variable consideration. Revenue from merchant card services contracts is recognized monthly using a time-elapsing measure of progress. Trustmark has elected the 'as-invoiced' practical expedient permitted under FASB ASC Topic 606 for recognition of the merchant card services revenue.

## Other Real Estate

Trustmark records a gain or loss from the sale of other real estate when control of the property transfers to the buyer. Trustmark records the gain or loss from the sale of other real estate in noninterest expense as other real estate expense. Other real estate sales for the three and nine months ended September 30, 2018 resulted in net gains of \$224 thousand and \$1.2 million, respectively, compared to \$200 thousand and \$1.7 million for the three and nine months ended September 30, 2017, respectively.

In general, purchases of Trustmark's other real estate property are not financed by Trustmark. Financing the purchase of other real estate is evaluated based upon the same lending policies and procedures as all other types of loans. Under FASB ASC Topic 610-20, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets," when Trustmark finances the sale of its other real estate to a buyer, Trustmark is required to assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these two criteria are met, Trustmark derecognizes the other real estate asset and records a gain or loss on the sale once control of the property is transferred to the buyer.

#### Wealth Management Division

##### Trust Management

There are five categories of revenue included in trust management: personal trust and investments, retirement plan services, institutional custody, corporate trust and other. Each of these categories includes multiple types of contracts, service obligations and fee income. However, the majority of these contracts include a single service obligation that is satisfied over time, the customer is charged in arrears for services rendered and revenue is recognized when payment is received. In general, the time period between



when the service obligation is completed and when payment from the customer is received is less than 30 days. Revenue from trust management contracts is primarily related to monthly service periods and based on the prior month-end's market value. Some trust management revenue is mandated by a court order, while other revenue consists of flat fees. Trust management revenue based on an account's market value represents variable consideration under the guidelines of FASB ASC Topic 606. Trustmark has elected the 'as-invoiced' practical expedient allowed under FASB ASC Topic 606 to account for the trust management revenue.

#### Investment Services

Investment services includes both brokerage and annuity income. Trustmark has a contract with a third-party investment services company which contains a single continuous service obligation, to provide broker-dealer and advisory services to customers on behalf of the third-party, which is satisfied over time and qualifies as a series of distinct service periods. Trustmark serves as the agent between the third-party investment services company, the principle, and the customer. In accordance with the contract, Trustmark receives a monthly payment from the investment services company for commissions and advisory fees (asset management fees) earned on transactions completed in the prior month net of all charges and fees due to the investment services company. Trustmark recognizes revenue from the investment services company, net of the revenue sharing expense due to the investment services company, when the payments are received. Commissions vary from month-to-month based on the specific products and transactions completed. The advisory fees vary based on the average daily balance of the managed assets for the period. The commissions and advisory fees represent variable consideration under FASB ASC Topic 606. Trustmark has elected the 'as-invoiced' practical expedient allowed under FASB ASC Topic 606 to recognize revenue from the investment services company.

#### Insurance Division

Fisher Brown Bottrell Insurance, Inc. (FBBI), a wholly-owned subsidiary of TNB, operates as an insurance broker representing the policyholder and has no allegiance with any one insurance provider. FBBI serves as the agent between the insurance provider (either insurance carrier or broker), the principal, and the policy holder, the customer. FBBI has four general categories of insurance contracts: commercial, commercial installments, personal and employee benefits. FBBI's insurance contracts contain a single performance obligation, policy placement, which is satisfied at a point in time. FBBI's performance obligation is satisfied as of the policy effective date.

In addition to policy placement, FBBI provides various other periodic services to the policyholders for which no additional fee is charged. These additional services are not considered material to the overall contract. Trustmark has elected the immaterial promises practical expedient allowed under FASB ASC Topic 606, which allows Trustmark to not assess whether promised services are performance obligations if the promised services are immaterial in the context of the contract. Therefore, the immaterial additional services offered to policyholders are not considered a performance obligation and no amount of the contract transaction price is allocated to these services.

In general, the transaction price for the insurance contracts is an established commission amount agreed upon by FBBI and the insurance provider. The commission amount varies based on the insurance provider and the type of policy. There are a small number of insurance contracts which FBBI does not receive a commission, but charges a fee directly to the policyholder.

Most of the commissions from insurance contracts are subject to clawback provisions which require FBBI to refund a prorated amount of the commissions received as a result of policy cancellations or lapses. Commissions subject to clawback provisions are considered variable consideration under FASB ASC Topic 606. Trustmark believes the expected value method of estimating the commissions subject to clawback provisions would best predict the amount of commissions FBBI will be entitled to because of the large number of insurance contracts with similar

characteristics and the number of possible outcomes. FBBI calculates a separate weighted-average percentage (returned commissions percentage) based on actual cancellations over the previous three years for commercial lines, bonds, and personal lines. FBBI applies the respective returned commissions percentage to the commission revenue earned related to insurance contracts within these three lines each month to calculate the estimated returned commissions amount, which represents the variable consideration subject to variable constraint. Revenue from insurance contracts is reported net of the variable consideration subject to variable constraint. FBBI performs an analysis of the returned commissions reserve quarterly and adjusts the reserve balance based on all available information including actual cancellations and the remaining term of the contract. The returned commissions percentage is updated annually.

Insurance Producers at FBBI earn commission as compensation for each policy they are responsible for placing. Commissions are not paid to Producers immediately at the policy effective date, can be subject to clawback provisions and can vary by Producer. Producers receive the commissions for which they are entitled at the end of the month following the month in which the policy became effective. Effective April 1, 2018, FBBI implemented a 'pay when paid' system. Under the 'pay when paid' system, Producers receive the commissions for which they are entitled at the end of the month following the month in which FBBI receives payment from the insurance provider or customer. Under FASB ASC Subtopic 340-40, "Other Assets and Deferred Costs: Contracts with Customers,"

the commission paid to the Producers is an incremental cost of obtaining a contract, which should be capitalized and amortized in a manner consistent with the pattern of transfer of the service related to the contract acquisition asset. Insurance contracts have a term of one year or less; therefore, Trustmark has elected the cost of obtaining a contract practical expedient allowed under FASB ASC Subtopic 340-40, which allows FBBI to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the contract asset that FBBI otherwise would have recognized is one year or less. Commission expense is recorded as noninterest expense in salaries and employee benefits when paid to the Producers.

#### Commercial Insurance

Revenue from FBBI's commercial insurance contracts (both agency billed and direct billed) consists of a set commission amount, which is subject to clawback provisions. Revenue from commercial insurance contracts is recognized on the policy effective date, and a corresponding commission receivable is recorded concurrent with the revenue until payment is received by FBBI. Effective April 1, 2018, FBBI utilizes a 'pay when paid' system to account for commercial insurance contracts. Under the 'pay when paid' system, an estimated commission amount is entered in the system when a commercial insurance contract is placed. FBBI records a top line receivable based on the estimated commission amount entered in the system each month, along with a corresponding amount recognized as revenue, and then adjusts the estimated receivable when the commissions are received from the insurance provider or customer.

#### Commercial Installment Insurance

Revenue from commercial installment insurance contracts consists of a set commission amount, which is not subject to clawback provisions, and is recognized in twelve equal monthly installments when invoiced by FBBI in the agency management system. FBBI has only a small number of commercial installment insurance contracts and these contracts all have a term of one year; therefore, recognizing the revenue from these contracts over twelve months is not materially different than recognizing the revenue in full at the policy effective date for any given period.

Effective April 1, 2018, as a result of implementing this 'pay when paid' system, as applied to insurance contracts, revenue from commercial installment contracts is recognized in the same manner as commercial insurance contracts.

#### Personal Insurance

Revenue from FBBI's personal insurance contracts consists of a set commission amount, which is subject to clawback provisions, and is recognized when payment is received (generally 30-60 days after the policy effective date). Personal insurance contracts have a term of one year; therefore, recognizing the revenue from these contracts when payment is received is not materially different than recognizing the revenue at the policy effective date for any given period.

#### Employee Benefits Insurance

Revenue from FBBI's employee benefits insurance contracts consists of a variable commission amount, which is not subject to clawback provisions, and is recognized when payment is received, typically on a monthly basis. Employee benefits insurance contracts have a set commission rate, but can vary from period to period based on changes in the number of employees covered by the policy (i.e. new hires and terminations). FBBI generally receives twelve monthly commission payments for these contracts with the initial payment being received approximately 60-90 days after the policy effective date. Under the guidelines of FASB ASC Topic 606, commissions from employee benefits insurance contracts represent fixed consideration because at contract inception (policy effective date) there is a set commission rate times a known number of covered employees. Changes in the number of covered employees are not known, nor can they be predicted, at contract inception. An increase or decrease in the number of covered employees

after the policy effective date is considered a contract modification resulting from a change in scope and transaction price under FASB ASC Topic 606. This modification is treated as part of the existing contract because it does not add a distinct service. Employee benefits insurance contracts have a term of one year; therefore, recognizing the revenue from these contracts when payment is received is not materially different than recognizing the revenue at the policy effective date or the contract modification date for any given period.

#### Contingency Commission Insurance

In addition to the insurance contracts discussed above, FBBI has contracts with various insurance providers for which it receives contingency income based on volume of business and claims experience. FBBI is the principal and the insurance provider is the customer for these contingency commission insurance contracts. The contingency commission contracts have a single continuous or stand-ready service obligation whereby FBBI places policies with policyholders when acceptable to the insurance provider, which is satisfied over time. The contract term for these contingency commission contracts is one year. Revenue is recognized from the

contingency commission contracts monthly using a time-elapsed measure of progress. FBBI accrues throughout the current year the amount of contingency commission income it expects to receive in the following year adjusted for a degree of uncertainty. FBBI updates a detail by insurance provider with the contingency commission income received, which is then compared to the total amount that was expected to be received. If actual receipts are higher or lower than the amount accrued in the prior year, the monthly accrual for the current year is adjusted accordingly.

Under the guidelines of FASB ASC Topic 606, revenue from contingency commission insurance contracts represents variable consideration and should be estimated using one of the two allowable methods subject to the variable consideration constraint. FBBI believes the most likely amount method to be the most appropriate method for estimating the variable consideration as there are only a few possible outcomes for each contract.

The following tables present noninterest income disaggregated by reportable operating segment and revenue stream for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017 (1)		
	Topic 606	Not Topic	Total	Topic 606	Not Topic	Total
		606 (2)			606 (2)	
<b>General Banking Division</b>						
Service charges on deposit accounts	\$11,074	\$—	\$11,074	\$11,222	\$—	\$11,222
Bank card and other fees	6,503	937	7,440	7,104	23	7,127
Mortgage banking, net	—	8,647	8,647	—	4,425	4,425
Wealth management	70	—	70	64	—	64
Other, net	1,685	(359 )	1,326	1,495	2,223	3,718
Security gains (losses), net	—	—	—	—	14	14
Total noninterest income	\$19,332	\$9,225	\$28,557	\$19,885	\$6,685	\$26,570
<b>Wealth Management Division</b>						
Service charges on deposit accounts	\$1	\$—	\$1	\$1	\$—	\$1
Bank card and other fees	19	—	19	23	—	23
Wealth management	7,719	—	7,719	7,466	—	7,466
Other, net	1	29	30	—	22	22
Total noninterest income	\$7,740	\$29	\$7,769	\$7,490	\$22	\$7,512
<b>Insurance Division</b>						
Insurance commissions	\$10,765	\$—	\$10,765	\$10,398	\$—	\$10,398
Other, net	2	—	2	—	—	—
Total noninterest income	\$10,767	\$—	\$10,767	\$10,398	\$—	\$10,398
<b>Consolidated</b>						
Service charges on deposit accounts	\$11,075	\$—	\$11,075	\$11,223	\$—	\$11,223
Bank card and other fees	6,522	937	7,459	7,127	23	7,150
Mortgage banking, net	—	8,647	8,647	—	4,425	4,425
Insurance commissions	10,765	—	10,765	10,398	—	10,398
Wealth management	7,789	—	7,789	7,530	—	7,530
Other, net	1,688	(330 )	1,358	1,495	2,245	3,740
Security gains (losses), net	—	—	—	—	14	14

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Total noninterest income                      \$37,839   \$9,254   \$47,093   \$37,773   \$6,707   \$44,480

- (1) Trustmark elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.
- (2) Noninterest income not in scope for FASB ASC Topic 606 includes customer derivatives revenue and miscellaneous credit card fee income within bank card and other fees; mortgage banking, net; amortization of tax credits, accretion of the FDIC indemnification asset, cash surrender value on various life insurance policies, earnings on Trustmark's non-qualified deferred compensation plans, other partnership investments and rental income within other, net; and security gains (losses), net.

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017 (1)		
	Topic 606	Not Topic 606 (2)	Total	Topic 606	Not Topic 606 (2)	Total
<b>General Banking Division</b>						
Service charges on deposit accounts	\$32,577	\$—	\$32,577	\$32,809	\$—	\$32,809
Bank card and other fees	19,865	1,227	21,092	20,777	208	20,985
Mortgage banking, net	—	28,958	28,958	—	23,618	23,618
Wealth management	210	—	210	210	—	210
Other, net	4,666	84	4,750	4,997	6,196	11,193
Security gains (losses), net	—	—	—	—	15	15
Total noninterest income	\$57,318	\$30,269	\$87,587	\$58,793	\$30,037	\$88,830
<b>Wealth Management Division</b>						
Service charges on deposit accounts	\$2	\$—	\$2	\$1	\$—	\$1
Bank card and other fees	63	—	63	35	—	35
Wealth management	22,624	—	22,624	22,407	—	22,407
Other, net	3	76	79	—	70	70
Total noninterest income	\$22,692	\$76	\$22,768	\$22,443	\$70	\$22,513
<b>Insurance Division</b>						
Insurance commissions	\$30,919	\$—	\$30,919	\$29,355	\$—	\$29,355
Other, net	3	—	3	5	—	5
Total noninterest income	\$30,922	\$—	\$30,922	\$29,360	\$—	\$29,360
<b>Consolidated</b>						
Service charges on deposit accounts	\$32,579	\$—	\$32,579	\$32,810	\$—	\$32,810
Bank card and other fees	19,928	1,227	21,155	20,812	208	21,020
Mortgage banking, net	—	28,958	28,958	—	23,618	23,618
Insurance commissions	30,919	—	30,919	29,355	—	29,355
Wealth management	22,834	—	22,834	22,617	—	22,617
Other, net	4,672	160	4,832	5,002	6,266	11,268
Security gains (losses), net	—	—	—	—	15	15
Total noninterest income	\$110,932	\$30,345	\$141,277	\$110,596	\$30,107	\$140,703

(1) Trustmark elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

(2) Noninterest income not in scope for FASB ASC Topic 606 includes customer derivatives revenue and miscellaneous credit card fee income within bank card and other fees; mortgage banking, net; amortization of tax credits, accretion of the FDIC indemnification asset, cash surrender value on various life insurance policies, earnings on Trustmark's non-qualified deferred compensation plans, other partnership investments and rental income within other, net; and security gains (losses), net.

## Note 11 – Defined Benefit and Other Postretirement Benefits

## Qualified Pension Plans

## Trustmark Capital Accumulation Plan

Trustmark maintained a noncontributory tax-qualified defined benefit pension plan titled the Trustmark Capital Accumulation Plan (the Plan) in which substantially all associates who began employment prior to 2007 participated. The Plan provided for retirement benefits based on the length of credited service and final average compensation, as defined in the Plan, which vested upon three years of service. On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan, effective as of December 31, 2016. As a result of the termination of the Plan, each participant became fully vested in their accrued benefits under the Plan. Final distributions were completed during the second quarter of 2017.

## Trustmark Corporation Pension Plan for Certain Employees of Acquired Financial Institutions

To satisfy commitments made by Trustmark to associates covered through plans obtained in acquisitions and subsequently merged into the Plan (collectively, the Continuing Associates), on July 26, 2016, the Board of Directors of Trustmark also approved the spin-off of the portion of the Plan associated with the accrued benefits of the Continuing Associates into a new plan titled the Trustmark Corporation Pension Plan for Certain Employees of Acquired Financial Institutions (the Continuing Plan), effective as of December 30, 2016, immediately prior to the termination of the Plan.

The following table presents information regarding the net periodic benefit cost for the Plan and the Continuing Plan for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Service cost	\$69	\$64	\$208	\$190
Interest cost	83	102	249	1,394
Expected return on plan assets	(57)	(51)	(171)	(267)
Recognized net loss due to lump sum settlements	41	—	121	—
Recognized net loss due to defined benefit plan termination	—	—	—	17,644
Recognized net actuarial loss	143	142	428	1,272
Net periodic benefit cost	\$279	\$257	\$835	\$20,233



For the plan year ending December 31, 2018, Trustmark's minimum required contribution to the Continuing Plan is expected to be \$243 thousand; however, Management and the Board of Directors of Trustmark will monitor the Continuing Plan throughout 2018 to determine any additional funding requirements by the plan's measurement date, which is December 31.

#### Supplemental Retirement Plans

Trustmark maintains a nonqualified supplemental retirement plan covering key executive officers and senior officers as well as directors who have elected to defer fees. The plan provides for retirement and/or death benefits based on a participant's covered salary or deferred fees. Although plan benefits may be paid from Trustmark's general assets, Trustmark has purchased life insurance contracts on the participants covered under the plan, which may be used to fund future benefit payments under the plan. The measurement date for the plan is December 31. As a result of mergers prior to 2014, Trustmark became the administrator of small nonqualified supplemental retirement plans, for which the plan benefits were frozen prior to the merger date.

The following table presents information regarding the net periodic benefit cost for Trustmark's nonqualified supplemental retirement plans for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Service cost	\$29	\$36	\$87	\$106
Interest cost	457	514	1,409	1,589
Amortization of prior service cost	63	63	188	188
Recognized net actuarial loss	218	214	664	651
Net periodic benefit cost	\$767	\$827	\$2,348	\$2,534

## Note 12 – Stock and Incentive Compensation Plans

Trustmark has granted stock and incentive compensation awards subject to the provisions of the Stock and Incentive Compensation Plan (the Stock Plan). Current outstanding and future grants of stock and incentive compensation awards are subject to the provisions of the Stock Plan, which is designed to provide flexibility to Trustmark regarding its ability to motivate, attract and retain the services of key associates and directors. The Stock Plan also allows Trustmark to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance units to key associates and directors.

## Restricted Stock Grants

## Performance Awards

Trustmark's performance awards vest over three years and are granted to Trustmark's executive and senior management teams. Performance awards granted vest based on performance goals of return on average tangible equity and total shareholder return. Performance awards are valued utilizing a Monte Carlo simulation model to estimate fair value of the awards at the grant date. These awards are recognized using the straight-line method over the requisite service period. These awards provide for achievement shares if performance measures exceed 100%. The restricted share agreement provides for voting rights and dividend privileges.

## Time-Vested Awards

Trustmark's time-vested awards vest over three years and are granted to members of Trustmark's Board of Directors as well as Trustmark's executive and senior management teams. Time-vested awards are valued utilizing the fair value of Trustmark's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period.

The following tables summarize the Stock Plan activity for the periods presented:

	Three Months Ended September 30, 2018	
	Performance	Time-Vested
	Awards	Awards
Nonvested shares, beginning of period	177,695	322,528
Granted	—	1,500
Released from restriction	—	(400 )
Forfeited	—	(764 )
Nonvested shares, end of period	177,695	322,864

  

	Nine Months Ended September 30, 2018	
	Performance	Time-Vested
	Awards	Awards
Nonvested shares, beginning of period	213,516	320,357

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Granted	51,174	118,325
Released from restriction	(55,351 )	(107,180 )
Forfeited	(31,644 )	(8,638 )
Nonvested shares, end of period	177,695	322,864

The following table presents information regarding compensation expense for awards under the Stock Plan for the periods presented (\$ in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Performance awards	\$435	\$435	\$725	\$959
Time-vested awards	723	641	2,297	2,291
Total compensation expense	\$1,158	\$1,076	\$3,022	\$3,250

## Note 13 – Contingencies

### Lending Related

Trustmark makes commitments to extend credit and issues standby and commercial letters of credit (letters of credit) in the normal course of business in order to fulfill the financing needs of its customers. The carrying amount of commitments to extend credit and letters of credit approximates the fair value of such financial instruments.

Commitments to extend credit are agreements to lend money to customers pursuant to certain specified conditions. Commitments generally have fixed expiration dates or other termination clauses. Because many of these commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contract amount of those instruments. Trustmark applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the nature of the transaction and the assessed creditworthiness of the borrower. At September 30, 2018 and 2017, Trustmark had unused commitments to extend credit of \$3.666 billion and \$3.143 billion, respectively.

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 irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses the same policies regarding credit risk and collateral, which are followed in the lending process. At September 30, 2018 and 2017, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was \$102.9 million and \$105.6 million, respectively. These amounts consist primarily of commitments with maturities of less than three years, which have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of September 30, 2018 and 2017, the fair value of collateral held was \$31.2 million and \$30.2 million, respectively.

### Legal Proceedings

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in three lawsuits related to the collapse of the Stanford Financial Group. The first is a purported class action complaint that was filed on August 23, 2009 in the District Court of Harris County, Texas, by Peggy Roif Rotstain, Guthrie Abbott, Catherine Burnell, Steven Queyrouze, Jaime Alexis Arroyo Bornstein and Juan C. Olano (collectively, Class Plaintiffs), on behalf of themselves and all others similarly situated, naming TNB and four other financial institutions unaffiliated with Trustmark as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount of fees and other monies received by each defendant from entities controlled by R. Allen Stanford (collectively, the Stanford Financial Group) and (ii) damages allegedly attributable to alleged conspiracies by one or more of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud on the asserted grounds that defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme. Plaintiffs have demanded a jury trial. Plaintiffs did not quantify damages.

In November 2009, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. In May 2010, all defendants (including TNB) filed motions to dismiss the lawsuit. In August 2010, the court authorized and approved the formation of an Official Stanford Investors Committee (OSIC) to represent the interests of Stanford investors and, under certain circumstances, to file legal actions for the benefit of Stanford investors. In December 2011, the OSIC filed a motion

to intervene in this action. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues. In December 2012, the court granted the OSIC's motion to intervene, and the OSIC filed an Intervenor Complaint against one of the other defendant financial institutions. In February 2013, the OSIC filed a second Intervenor Complaint that asserts claims against TNB and the remaining defendant financial institutions. The OSIC seeks to recover: (i) alleged fraudulent transfers in the amount of the fees each of the defendants allegedly received from Stanford Financial Group, the profits each of the defendants allegedly made from Stanford Financial Group deposits, and other monies each of the defendants allegedly received from Stanford Financial Group; (ii) damages attributable to alleged conspiracies by each of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud and conversion on the asserted grounds that the defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme; and (iii) punitive damages. The OSIC did not quantify damages.

In July 2013, all defendants (including TNB) filed motions to dismiss the OSIC's claims. In March 2015, the court entered an order authorizing the parties to conduct discovery regarding class certification, staying all other discovery and setting a deadline for the parties to complete briefing on class certification issues. In April 2015, the court granted in part and denied in part the defendants' motions to dismiss the Class Plaintiffs' claims and the OSIC's claims. The court dismissed all of the Class Plaintiffs' fraudulent transfer claims and dismissed certain of the OSIC's claims. The court denied the motions by TNB and the other financial institution defendants to dismiss the OSIC's constructive fraudulent transfer claims.

On June 23, 2015, the court allowed the Class Plaintiffs to file a Second Amended Class Action Complaint (SAC), which asserted new claims against TNB and certain of the other defendants for (i) aiding, abetting and participating in a fraudulent scheme, (ii) aiding, abetting and participating in violations of the Texas Securities Act, (iii) aiding, abetting and participating in breaches of fiduciary duty, (iv) aiding, abetting and participating in conversion and (v) conspiracy. On July 14, 2015, the defendants (including TNB) filed motions to dismiss the SAC and to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer claims against TNB and the other financial institutions that are defendants in the action. On July 27, 2016, the court denied the motion by TNB and the other financial institution defendants to dismiss the SAC and also denied the motion by TNB and the other financial institution defendants to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer claims. On August 24, 2016, TNB filed its answer to the SAC. On October 20, 2017, the OSIC filed a motion seeking an order lifting the discovery stay and establishing a trial schedule. On November 7, 2017, the court denied the OSIC's motion seeking class certification and designation of class representatives and counsel, finding that common issues of fact did not predominate. The court granted the OSIC's motion to lift the discovery stay that it had previously ordered.

The second Stanford-related lawsuit was filed on December 14, 2009 in the District Court of Ascension Parish, Louisiana, individually by Harold Jackson, Paul Blaine, Carolyn Bass Smith, Christine Nichols, and Ronald and Ramona Hebert naming TNB (misnamed as Trust National Bank) and other individuals and entities not affiliated with Trustmark as defendants. The complaint seeks to recover the money lost by these individual plaintiffs as a result of the collapse of the Stanford Financial Group (in addition to other damages) under various theories and causes of action, including negligence, breach of contract, breach of fiduciary duty, negligent misrepresentation, detrimental reliance, conspiracy, and violation of Louisiana's uniform fiduciary, securities, and racketeering laws. The complaint does not quantify the amount of money the plaintiffs seek to recover. In January 2010, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. On March 29, 2010, the court stayed the case. TNB filed a motion to lift the stay, which was denied on February 28, 2012. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues.

On April 11, 2016, Trustmark learned that a third Stanford-related lawsuit had been filed on that date in the Superior Court of Justice in Ontario, Canada, by The Toronto-Dominion Bank ("TD Bank"), naming TNB and three other financial institutions not affiliated with Trustmark as defendants. The complaint seeks a declaration specifying the degree to which each of TNB and the other defendants are liable in respect of any loss and damage for which TD Bank is found to be liable in a litigation commenced against TD Bank brought by the Joint Liquidators of Stanford International Bank Limited in the Superior Court of Justice, Commercial List in Ontario, Canada (the "Joint Liquidators' Action"), as well as contribution and indemnity in respect of any judgment, interest and costs TD Bank is ordered to pay in the Joint Liquidators' Action. To date, TNB has not been served in connection with this action.

TNB's relationship with the Stanford Financial Group began as a result of Trustmark's acquisition of a Houston-based bank in August 2006, and consisted of correspondent banking and other traditional banking services in the ordinary course of business. All Stanford-related lawsuits are in pre-trial stages.

Trustmark and its subsidiaries are also parties to other 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.

All pending legal proceedings described above are being vigorously contested. In accordance FASB ASC Topic 450-20, "Loss Contingencies," Trustmark will establish an accrued liability for litigation matters when those matters present loss contingencies that are both probable and reasonably estimable. At the present time, Trustmark believes, based on its evaluation and the advice of legal counsel, that a loss in any such proceeding is not probable and a reasonable estimate cannot reasonably be made.

Note 14 – Earnings Per Share (EPS)

The following table reflects weighted-average shares used to calculate basic and diluted EPS for the periods presented (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Basic shares	67,621	67,742	67,729	67,722
Dilutive shares	175	174	147	154
Diluted shares	67,796	67,916	67,876	67,876

Weighted-average antidilutive stock awards were excluded in determining diluted EPS. The following table reflects weighted-average antidilutive stock awards for the periods presented (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Weighted-average antidilutive stock awards	8	6	87	72

Note 15 – Statements of Cash Flows

The following table reflects specific transaction amounts for the periods presented (\$ in thousands):

	Nine Months Ended September 30, 2018	
	2018	2017
Income taxes paid	\$11,629	\$1,423
Interest expense paid on deposits and borrowings	46,506	28,266
Noncash transfers from loans to other real estate	10,368	7,006
Transfer of long-term FHLB advances to short-term	—	250,038
Assets acquired in business combination	—	196,265



Liabilities acquired in business combination	—	184,949
--	---	---------

## Note 16 – Shareholders’ Equity

## Regulatory Capital

Trustmark and TNB are subject to minimum risk-based capital and leverage capital requirements, as described in the section captioned “Capital Adequacy” included in Part I. Item 1. – Business of Trustmark’s 2017 Annual Report on Form 10-K, which are administered by the federal bank regulatory agencies. These capital requirements, as defined by federal regulations, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Trustmark’s and TNB’s minimum risk-based capital requirements include the phased in capital conservation buffer of 1.875% at September 30, 2018 and 1.250% at December 31, 2017. Accumulated other comprehensive loss, net of tax, is not included in computing regulatory capital. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB and limit Trustmark’s and TNB’s ability to pay dividends. As of September 30, 2018, Trustmark and TNB exceeded all applicable minimum capital standards. In addition, Trustmark and TNB met applicable regulatory guidelines to be considered well-capitalized at September 30, 2018. To be categorized in this manner, Trustmark and TNB maintained minimum common equity Tier 1 risk-based capital, Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios as set forth in the accompanying table, and were not subject to any written agreement, order or capital directive, or prompt corrective action directive issued by their primary federal regulators to meet and maintain a specific capital level for any capital measures. There are no significant conditions or events that have occurred since September 30, 2018, which Management believes have affected Trustmark’s or TNB’s present classification.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table provides Trustmark's and TNB's actual regulatory capital amounts and ratios under regulatory capital standards in effect at September 30, 2018 and December 31, 2017 (\$ in thousands):

	Actual		Minimum	To Be
	Regulatory Capital	Ratio	Requirement	Well
	Amount			Capitalized
<b>At September 30, 2018:</b>				
<b>Common Equity Tier 1 Capital (to Risk Weighted Assets)</b>				
Trustmark Corporation	\$ 1,302,859	12.20%	6.375	% n/a
Trustmark National Bank	1,344,029	12.59%	6.375	% 6.50 %
<b>Tier 1 Capital (to Risk Weighted Assets)</b>				
Trustmark Corporation	\$ 1,362,859	12.76%	7.875	% n/a
Trustmark National Bank	1,344,029	12.59%	7.875	% 8.00 %
<b>Total Capital (to Risk Weighted Assets)</b>				
Trustmark Corporation	\$ 1,453,447	13.61%	9.875	% n/a
Trustmark National Bank	1,434,617	13.44%	9.875	% 10.00 %
<b>Tier 1 Leverage (to Average Assets)</b>				
Trustmark Corporation	\$ 1,362,859	10.41%	4.00	% n/a
Trustmark National Bank	1,344,029	10.29%	4.00	% 5.00 %
<b>At December 31, 2017:</b>				
<b>Common Equity Tier 1 Capital (to Risk Weighted Assets)</b>				
Trustmark Corporation	\$ 1,243,240	11.77%	5.750	% n/a
Trustmark National Bank	1,284,575	12.16%	5.750	% 6.50 %
<b>Tier 1 Capital (to Risk Weighted Assets)</b>				
Trustmark Corporation	\$ 1,303,238	12.33%	7.250	% n/a
Trustmark National Bank	1,284,575	12.16%	7.250	% 8.00 %
<b>Total Capital (to Risk Weighted Assets)</b>				
Trustmark Corporation	\$ 1,384,050	13.10%	9.250	% n/a
Trustmark National Bank	1,365,387	12.93%	9.250	% 10.00 %
<b>Tier 1 Leverage (to Average Assets)</b>				
Trustmark Corporation	\$ 1,303,238	9.67 %	4.00	% n/a
Trustmark National Bank	1,284,575	9.54 %	4.00	% 5.00 %

### Stock Repurchase Program

On March 11, 2016, the Board of Directors of Trustmark authorized a stock repurchase program under which \$100.0 million of Trustmark's outstanding common stock may be acquired through March 31, 2019. The shares may be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions,

depending on market conditions. Trustmark repurchased approximately 243 thousand shares of its common stock valued at \$7.9 million during the nine months ended September 30, 2018, compared to no shares repurchased during the nine months ended September 30, 2017.

## Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

The following tables present the net change in the components of accumulated other comprehensive loss and the related tax effects allocated to each component for the periods presented (\$ in thousands). Reclassification adjustments related to securities available for sale are included in security gains (losses), net in the accompanying consolidated statements of income. The amortization of prior service cost, recognized net loss due to lump sum settlements, change in net actuarial loss and recognized net loss due to defined benefit plan termination on pension and other postretirement benefit plans are included in the computation of net periodic benefit cost (see Note 11 – Defined Benefit and Other Postretirement Benefits for additional details). Reclassification adjustments related to pension and other postretirement benefit plans are included in salaries and employee benefits, defined benefit plan termination and other expense in the accompanying consolidated statements of income. Reclassification adjustments related to the cash flow hedge derivative are included in other interest expense in the accompanying consolidated statements of income.

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Before Tax	Tax (Expense)	Net of Tax	Before Tax	Tax (Expense)	Net of Tax
	Amount	Benefit	Amount	Amount	Benefit	Amount
<b>Securities available for sale and transferred securities:</b>						
Net unrealized holding gains (losses) arising						
during the period	\$ (9,660)	\$ 2,414	\$ (7,246)	\$ (535)	\$ 204	\$ (331)
Reclassification adjustment for net (gains) losses						
realized in net income	—	—	—	(14)	6	(8)
Change in net unrealized holding loss on						
securities transferred to held to maturity	973	(243)	730	1,130	(432)	698
<b>Total securities available for sale and transferred securities</b>						
	(8,687)	2,171	(6,516)	581	(222)	359
<b>Pension and other postretirement benefit plans:</b>						
Net change in prior service costs	63	(16)	47	63	(24)	39
Recognized net loss due to lump sum settlements	41	(10)	31	—	—	—
Change in net actuarial loss	361	(90)	271	356	(137)	219
<b>Total pension and other postretirement benefit plans</b>						
	465	(116)	349	419	(161)	258
<b>Cash flow hedge derivatives:</b>						
Change in accumulated gain (loss) on effective						
cash flow hedge derivatives	52	(13)	39	53	(20)	33
Reclassification adjustment for (gain) loss realized	(104)	25	(79)	55	(21)	34

Edgar Filing: TRUSTMARK CORP - Form 10-Q

in net income									
Total cash flow hedge derivatives	(52	)	12	(40	)	108	(41	)	67
Total other comprehensive income (loss)	\$ (8,274)	\$ 2,067	\$ (6,207)	\$ 1,108	\$ (424	)	\$ 684		

44

---

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Before Tax	Tax Benefit (Expense)	Net of Tax	Before Tax	Tax Benefit (Expense)	Net of Tax
	Amount	Benefit	Amount	Amount	Benefit	Amount
Securities available for sale and transferred securities:						
Net unrealized holding gains (losses) arising						
during the period	\$ (46,974)	\$ 11,743	\$ (35,231)	\$ 6,335	\$ (2,423)	\$ 3,912
Reclassification adjustment for net (gains) losses						
realized in net income	—	—	—	(15)	6	(9)
Change in net unrealized holding loss on						
securities transferred to held to maturity	2,909	(727)	2,182	3,551	(1,358)	2,193
Total securities available for sale						
and transferred securities	(44,065)	11,016	(33,049)	9,871	(3,775)	6,096
Pension and other postretirement benefit plans:						
Net change in prior service costs	188	(48)	140	188	(72)	116
Recognized net loss due to lump sum settlements	121	(29)	92	—	—	—
Change in net actuarial loss	1,092	(273)	819	1,923	(736)	1,187
Recognized net loss due to defined benefit plan						
termination	—	—	—	16,991	(6,499)	10,492
Total pension and other postretirement benefit						
plans	1,401	(350)	1,051	19,102	(7,307)	11,795
Cash flow hedge derivatives:						
Change in accumulated gain (loss) on effective						
cash flow hedge derivatives	611	(153)	458	(99)	38	(61)
Reclassification adjustment for (gain) loss realized						
in net income	(209)	52	(157)	232	(89)	143
Total cash flow hedge derivatives	402	(101)	301	133	(51)	82
Total other comprehensive income (loss)	\$ (42,262)	\$ 10,565	\$ (31,697)	\$ 29,106	\$ (11,133)	\$ 17,973

The following table presents the changes in the balances of each component of accumulated other comprehensive loss for the periods presented (\$ in thousands). All amounts are presented net of tax.

Securities	Defined	Cash Flow	Total
Available for Sale	Benefit	Hedge	

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	and Transferred Securities	Pension Items	Derivatives	
Balance at January 1, 2018	\$ (26,535 )	\$(13,468)	\$ 278	\$(39,725)
Other comprehensive income (loss) before reclassification	(33,049 )	—	458	(32,591)
Amounts reclassified from accumulated other				
comprehensive loss	—	1,051	(157 )	894
Net other comprehensive income (loss)	(33,049 )	1,051	301	(31,697)
Reclassification of certain income tax effects related to the				
change				
in the federal statutory income tax rate under the Tax Cuts				
and				
Jobs Act of 2017 (Tax Reform Act)	(5,694 )	(2,890 )	60	(8,524 )
Balance at September 30, 2018	\$ (65,278 )	\$(15,307)	\$ 639	\$(79,946)
Balance at January 1, 2017	\$ (20,800 )	\$(24,980)	\$ (18 )	\$(45,798)
Other comprehensive income (loss) before reclassification	6,105	—	(61 )	6,044
Amounts reclassified from accumulated other				
comprehensive loss	(9 )	11,795	143	11,929
Net other comprehensive income (loss)	6,096	11,795	82	17,973
Balance at September 30, 2017	\$ (14,704 )	\$(13,185)	\$ 64	\$(27,825)

## Note 17 – Fair Value

### Financial Instruments Measured at Fair Value

The methodologies Trustmark uses in determining the fair values are based primarily on the use of independent, market-based data to reflect a value that would be reasonably expected upon exchange of the position in an orderly transaction between market participants at the measurement date. The predominant portion of assets that are stated at fair value are of a nature that can be valued using prices or inputs that are readily observable through a variety of independent data providers. The providers selected by Trustmark for fair valuation data are widely recognized and accepted vendors whose evaluations support the pricing functions of financial institutions, investment and mutual funds, and portfolio managers. Trustmark has documented and evaluated the pricing methodologies used by the vendors and maintains internal processes that regularly test valuations for anomalies.

Trustmark utilizes an independent pricing service to advise it on the carrying value of the securities available for sale portfolio. As part of Trustmark's procedures, the price provided from the service is evaluated for reasonableness given market changes. When a questionable price exists, Trustmark investigates further to determine if the price is valid. If needed, other market participants may be utilized to determine the correct fair value. Trustmark has also reviewed and confirmed its determinations in thorough discussions with the pricing source regarding their methods of price discovery.

Mortgage loan commitments are valued based on the securities prices of similar collateral, term, rate and delivery for which the loan is eligible to deliver in place of the particular security. Trustmark acquires a broad array of mortgage security prices that are supplied by a market data vendor, which in turn accumulates prices from a broad list of securities dealers. Prices are processed through a mortgage pipeline management system that accumulates and segregates all loan commitment and forward-sale transactions according to the similarity of various characteristics (maturity, term, rate, and collateral). Prices are matched to those positions that are deemed to be an eligible substitute or offset (i.e., "deliverable") for a corresponding security observed in the market place.

Trustmark estimates fair value of the MSR through the use of prevailing market participant assumptions and market participant valuation processes. This valuation is periodically tested and validated against other third-party firm valuations.

Trustmark obtains the fair value of interest rate swaps from a third-party pricing service that uses an industry standard discounted cash flow methodology. In addition, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its interest rate swap contracts for the effect of nonperformance risk, Trustmark has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the FASB's fair value measurement guidance, Trustmark made an accounting policy election to measure the credit risk of these derivative financial instruments, which are subject to master netting agreements, on a net basis by counterparty portfolio.

Trustmark has determined that the majority of the inputs used to value its interest rate swaps offered to qualified commercial borrowers fall within Level 2 of the fair value hierarchy, while the credit valuation adjustments associated with these derivatives utilize Level 3 inputs, such as estimates of current credit spreads. Trustmark has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate swaps and has determined that the credit valuation adjustment is not significant to the overall valuation of these derivatives. As a result, Trustmark classifies its interest rate swap valuations in Level 2 of the fair value hierarchy.

Trustmark also utilizes exchange-traded derivative instruments such as Treasury note futures contracts and option contracts to achieve a fair value return that offsets the changes in fair value of the MSR attributable to interest rates.



Fair values of these derivative instruments are determined from quoted prices in active markets for identical assets therefore allowing them to be classified within Level 1 of the fair value hierarchy. In addition, Trustmark utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area which lack observable inputs for valuation purposes resulting in their inclusion in Level 3 of the fair value hierarchy.

At this time, Trustmark presents no fair values that are derived through internal modeling. Should positions requiring fair valuation arise that are not relevant to existing methodologies, Trustmark will make every reasonable effort to obtain market participant assumptions, or independent evaluation.

Financial Assets and Liabilities

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value (\$ in thousands). There were no transfers between fair value levels for the nine months ended September 30, 2018 and the year ended December 31, 2017.

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	\$32,371	\$—	\$32,371	\$—
Obligations of states and political subdivisions	57,264	—	57,264	—
Mortgage-backed securities	1,774,998	—	1,774,998	—
Securities available for sale	1,864,633	—	1,864,633	—
Loans held for sale	182,664	—	182,664	—
Mortgage servicing rights	101,374	—	—	101,374
Other assets - derivatives	3,287	(1,531)	3,925	893
Other liabilities - derivatives	4,311	1,070	3,241	—

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	\$45,285	\$—	\$45,285	\$—
Obligations of states and political subdivisions	79,229	—	79,229	—
Mortgage-backed securities	2,114,121	—	2,114,121	—
Securities available for sale	2,238,635	—	2,238,635	—
Loans held for sale	180,512	—	180,512	—
Mortgage servicing rights	84,269	—	—	84,269
Other assets - derivatives	1,516	(1,013)	1,629	900
Other liabilities - derivatives	2,678	616	2,062	—

The changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2018 and 2017 are summarized as follows (\$ in thousands):

	Other Assets -	
	MSR	Derivatives
Balance, January 1, 2018	\$84,269	\$ 900
Total net (loss) gain included in Mortgage banking, net (1)	4,857	3,345
Additions	12,248	—
Sales	—	(3,352 )
Balance, September 30, 2018	\$101,374	\$ 893

The amount of total gains (losses) for the period included in earnings

that are attributable to the change in unrealized gains or

losses still held at September 30, 2018

\$13,879 \$ 247

Balance, January 1, 2017	\$80,239	\$ 1,001
Total net (loss) gain included in Mortgage banking, net (1)	(10,392 )	3,436
Additions	11,630	—
Sales	—	(3,431 )
Balance, September 30, 2017	\$81,477	\$ 1,006

The amount of total gains (losses) for the period included in earnings that are attributable to the change in unrealized gains or losses still held at September 30, 2017	\$(2,218 )	\$ (1,483 )
---	------------	-------------

(1) Total net (loss) gain included in Mortgage banking, net relating to the MSR includes changes in fair value due to market changes and due to run-off.

47

---

Trustmark may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. Assets at September 30, 2018, which have been measured at fair value on a nonrecurring basis, include impaired LHFI. Loans for which it is probable Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement are considered impaired. Specific allowances for impaired LHFI are based on comparisons of the recorded carrying values of the loans to the present value of the estimated cash flows of these loans at each loan's original effective interest rate, the fair value of the collateral or the observable market prices of the loans. Impaired LHFI are primarily collateral dependent loans and are assessed using a fair value approach. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or as-is value of the property being appraised, normally from recently received and reviewed appraisals. 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. Appraised values are adjusted down for costs associated with asset disposal. At September 30, 2018, Trustmark had outstanding balances of \$52.5 million in impaired LHFI that were individually evaluated for impairment and written down to the fair value of the underlying collateral less cost to sell based on the fair value of the collateral or other unobservable input compared to \$48.9 million at December 31, 2017. These individually evaluated impaired LHFI are classified as Level 3 in the fair value hierarchy. Impaired LHFI are periodically reviewed and evaluated for additional impairment and adjusted accordingly based on the same factors identified above.

#### Nonfinancial Assets and Liabilities

Certain nonfinancial assets measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment), nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other nonfinancial long-lived assets measured at fair value for impairment assessment.

Other real estate includes assets that have been acquired in satisfaction of debt through foreclosure and is carried at the lower of cost or estimated fair value. Fair value is based on independent appraisals and other relevant factors. In the determination of fair value subsequent to foreclosure, Management also considers other factors or recent developments, such as changes in market conditions from the time of valuation and anticipated sales values considering plans for disposition, which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. Periodic revaluations are classified as Level 3 in the fair value hierarchy since assumptions are used that may not be observable in the market.

Foreclosed assets of \$18.4 million were remeasured during the first nine months of 2018, requiring write-downs of \$1.9 million to reach their current fair values compared to \$22.0 million of foreclosed assets that were remeasured during the first nine months of 2017, requiring write-downs of \$2.6 million.

#### Fair Value of Financial Instruments

FASB ASC Topic 825, "Financial Instruments," requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments can be found in Note 18 – Fair Value included in Item 8 of Trustmark's Annual Report on Form 10-K for the year ended December 31, 2017.

The carrying amounts and estimated fair values of financial instruments at September 30, 2018 and December 31, 2017, are as follows (\$ in thousands):

	September 30, 2018		December 31, 2017	
	Carrying	Estimated	Carrying	Estimated
	Value	Fair Value	Value	Fair Value
<b>Financial Assets:</b>				
<b>Level 2 Inputs:</b>				
Cash and short-term investments	\$433,471	\$433,471	\$336,383	\$336,383
Securities held to maturity	943,883	907,317	1,056,486	1,046,247
<b>Level 3 Inputs:</b>				
Net LHFI	8,658,156	8,560,091	8,493,234	8,507,469
Net acquired loans	130,901	130,901	257,438	257,438
<b>Financial Liabilities:</b>				
<b>Level 2 Inputs:</b>				
Deposits	10,956,910	10,953,348	10,577,512	10,577,858
Short-term liabilities	676,888	676,888	1,440,876	1,440,876
Long-term FHLB advances	896	831	946	946
Junior subordinated debt securities	61,856	53,815	61,856	45,773

In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. Trustmark's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot necessarily be substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of Trustmark.

On January 1, 2018, Trustmark adopted ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of the FASB Accounting Standards Codification)", which required the use of the exit price notion when measuring the fair value of the LHFI portfolio. Please refer to Note 20 – Accounting Policies Recently Adopted and Pending Accounting Pronouncements for more information.

#### Fair Value Option

Trustmark has elected to account for its mortgage LHFS under the fair value option, with interest income on these mortgage LHFS reported in interest and fees on LHFS and LHFI. The fair value of the mortgage LHFS is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan. The mortgage LHFS are actively managed and monitored and certain market risks of the loans may be mitigated through the use of derivatives. These derivative instruments are carried at fair value with changes in fair value recorded in noninterest income in mortgage

banking, net. The changes in the fair value of the LHFS are largely offset by changes in the fair value of the derivative instruments. For the three and nine months ended September 30, 2018, a net loss of \$1.3 million and a net gain of \$416 thousand, respectively, was recorded in noninterest income in mortgage banking, net for changes in the fair value of the LHFS accounted for under the fair value option, compared to a net loss of \$202 thousand and a net gain of \$3.5 million for the three and nine months ended September 30, 2017, respectively. Interest and fees on LHFS and LHFI for the three and nine months ended September 30, 2018 included \$1.5 million and \$3.8 million, respectively, of interest earned on the LHFS accounted for under the fair value option, compared to \$1.4 million and \$3.7 million for the three and nine months ended September 30, 2017, respectively. Election of the fair value option allows Trustmark to reduce the accounting volatility that would otherwise result from the asymmetry created by accounting for the financial instruments at the lower of cost or fair value and the derivatives at fair value. The fair value option election does not apply to the GNMA optional repurchase loans which do not meet the requirements under FASB ASC Topic 825 to be accounted for under the fair value option. GNMA optional repurchase loans totaled \$47.8 million and \$48.2 million at September 30, 2018 and December 31, 2017, respectively, and are included in LHFS on the accompanying consolidated balance sheets.

The following table provides information about the fair value and the contractual principal outstanding of the LHFS accounted for under the fair value option as of September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018	December 31, 2017
Fair value of LHFS	\$ 134,874	\$ 132,300
LHFS contractual principal outstanding	134,598	129,347
Fair value less unpaid principal	\$ 276	\$ 2,953

#### Note 18 – Derivative Financial Instruments

##### Derivatives Designated as Hedging Instruments

On April 4, 2013, Trustmark entered into a forward interest rate swap contract on junior subordinated debentures with a total notional amount of \$60.0 million. The interest rate swap contract was designated as a derivative instrument in a cash flow hedge under FASB ASC Topic 815, “Derivatives and Hedging,” with the objective of protecting the quarterly interest payments on Trustmark’s \$60.0 million of junior subordinated debentures issued to Trustmark Preferred Capital Trust I throughout the five-year period beginning December 31, 2014 and ending December 31, 2019 from the risk of variability of those payments resulting from changes in the three-month LIBOR interest rate. Under the swap, which became effective on December 31, 2014, Trustmark will pay a fixed interest rate of 1.66% and receive a variable interest rate based on three-month LIBOR on a total notional amount of \$60.0 million, with quarterly net settlements.

No ineffectiveness related to the interest rate swap designated as a cash flow hedge was recognized in the consolidated statements of income for the nine months ended September 30, 2018 and 2017. The accumulated net after-tax gain related to the effective cash flow hedge included in accumulated other comprehensive loss totaled \$639 thousand at September 30, 2018 compared to a net after-tax gain of \$278 thousand at December 31, 2017. Amounts reported in accumulated other comprehensive loss related to this derivative are reclassified to other interest expense as interest payments are made on Trustmark’s variable rate junior subordinated debentures. During the next twelve months, Trustmark estimates that \$644 thousand will be reclassified as a decrease to other interest expense.

##### Derivatives not Designated as Hedging Instruments

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in the fair value of the MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. The total notional amount of these derivative instruments were \$252.0 million at September 30, 2018 compared to \$349.0 million at December 31, 2017. Changes in the fair value of these exchange-traded derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of the MSR. The impact of this strategy resulted in a net positive ineffectiveness of \$72 thousand and a net negative ineffectiveness of \$2.6 million for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, the impact was a net positive ineffectiveness of \$3.5 million and \$1.0 million, respectively.

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward sales contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of LHFS. Trustmark's off-balance sheet obligations under these derivative instruments totaled \$199.5 million at September 30, 2018, with a positive valuation adjustment of \$930 thousand, compared to \$182.1 million, with a negative valuation adjustment of \$237 thousand, at December 31, 2017.

Trustmark also utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area. Interest rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified time period. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of forward sales contracts. Trustmark's off-balance sheet obligations under these derivative instruments totaled \$102.9 million at September 30, 2018, with a positive valuation adjustment of \$893 thousand, compared to \$83.0 million, with a positive valuation adjustment of \$900 thousand, as of December 31, 2017.



Trustmark offers certain derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivatives transactions executed as part of this program are not designated as qualifying hedging relationships and are, therefore, carried at fair value with the change in fair value recorded in noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset. As of September 30, 2018, Trustmark had interest rate swaps with an aggregate notional amount of \$410.2 million related to this program, compared to \$351.9 million as of December 31, 2017.

#### Credit-risk-related Contingent Features

Trustmark has agreements with its financial institution counterparties that contain provisions where if Trustmark defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Trustmark could also be declared in default on its derivatives obligations.

As of September 30, 2018, Trustmark had no termination value of interest rate swaps in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements compared to \$80 thousand at December 31, 2017. As of September 30, 2018, Trustmark had no posted collateral against its obligations because of negotiated thresholds and minimum transfer amounts under these agreements. If Trustmark had breached any of these triggering provisions at September 30, 2018, it could have been required to settle its obligations under the agreements at the termination value.

Credit risk participation agreements arise when Trustmark contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. At both September 30, 2018 and December 31, 2017, Trustmark had entered into two risk participation agreements as a beneficiary with an aggregate notional amount of \$13.2 million and \$13.7 million, respectively. Trustmark had entered into seven risk participation agreements as a guarantor with an aggregate notional amount of \$40.3 million at September 30, 2018 compared to six risk participation agreements as a guarantor with an aggregate notional amount of \$37.1 million at December 31, 2017. The aggregate fair values of these risk participation agreements were immaterial at September 30, 2018 and December 31, 2017.

#### Tabular Disclosures

The following tables disclose the fair value of derivative instruments in Trustmark's consolidated balance sheets as of September 30, 2018 and December 31, 2017 as well as the effect of these derivative instruments on Trustmark's results of operations for the periods presented (\$ in thousands):

	September 30, 2018	December 31, 2017
<b>Derivatives in hedging relationships</b>		
Interest rate contracts:		
Interest rate swaps included in other assets	\$ 852	\$ 451
<b>Derivatives not designated as hedging instruments</b>		
Interest rate contracts:		
Futures contracts included in other assets	\$ (1,569 )	\$ (1,088 )
Exchange traded purchased options included in other assets	38	75

Edgar Filing: TRUSTMARK CORP - Form 10-Q

OTC written options (rate locks) included in other assets	893	900
Interest rate swaps included in other assets	3,073	1,175
Credit risk participation agreements included in other assets	—	3
Forward contracts included in other liabilities	(930 )	237
Exchange traded written options included in other liabilities	1,070	616
Interest rate swaps included in other liabilities	4,170	1,819
Credit risk participation agreements included in other liabilities	1	6

51

---

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
<b>Derivatives in hedging relationships</b>				
Amount of gain (loss) reclassified from accumulated other comprehensive loss and recognized in other interest expense	\$ 104	\$(55 )	\$209	\$(232)
<b>Derivatives not designated as hedging instruments</b>				
Amount of gain (loss) recognized in mortgage banking, net	\$(1,302)	\$(466)	\$(9,243)	\$688
Amount of gain (loss) recognized in bank card and other fees	(86 )	(10 )	(41 )	(63 )

The following table discloses the amount included in other comprehensive income (loss), net of tax, for derivative instruments designated as cash flow hedges for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
<b>Derivatives in cash flow hedging relationship</b>				
Amount of gain (loss) recognized in other comprehensive income (loss), net of tax	\$ 39	\$ 33	\$458	\$(61)

Trustmark's interest rate swap derivative instruments are subject to master netting agreements, and therefore, eligible for offsetting in the consolidated balance sheets. Trustmark has elected to not offset any derivative instruments in its consolidated balance sheets. Information about financial instruments that are eligible for offset in the consolidated balance sheets as of September 30, 2018 and December 31, 2017 is presented in the following tables (\$ in thousands):

Offsetting of Derivative  
Assets  
As of September 30, 2018

		Gross Amounts Not Offset in the		
		Statement of Financial Position		
Gross	Gross Amounts	Net Amounts of	Financial	Cash Collateral Net
Amounts of	Offset in the	Assets presented in	Instruments	Received
				Amount

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Recognized Statement of the Statement of

	Assets	Financial Position	Financial Position			
Derivatives	\$ 3,925	\$ —	\$ 3,925	\$ (84 )	\$ (950 )	\$ 2,891

Offsetting of Derivative  
Liabilities  
As of September 30, 2018

Gross Amounts Not Offset in the  
Statement of Financial  
Position

Gross  
Amounts  
of  
Gross Amounts  
Offset in the  
Net Amounts of  
Liabilities presented

Recognized Statement of in the Statement of Financial Cash Collateral

	Liabilities	Financial Position	Financial Position	Instruments	Posted	Net Amount
Derivatives	\$ 4,170	\$ —	\$ 4,170	\$ (84 )	\$ —	\$ 4,086

Offsetting of Derivative  
Assets  
As of December 31, 2017

Gross Amounts Not Offset in the  
Statement of Financial Position

Gross  
Amounts  
of  
Gross Amounts  
Offset in the  
Net Amounts of  
Assets presented in  
the Statement of

Recognized Statement of Financial Financial Cash Collateral

	Assets	Financial Position	Position	Instruments	Received	Net Amount
Derivatives	\$ 1,626	\$ —	\$ 1,626	\$ (311 )	\$ —	\$ 1,315

Offsetting of Derivative  
Liabilities  
As of December 31, 2017

Gross Amounts Not Offset in the  
Statement of Financial  
Position

Gross  
Amounts  
Offset in the  
Net Amounts of  
Liabilities presented  
Financial  
Cash Collateral  
Net Amount  
Instruments  
Posted

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Amounts Statement of in the Statement of  
of  
Financial Position  
Recognized Financial Position

Liabilities

Derivatives  
52

\$ 1,819 \$ — \$ 1,819 \$ (311 ) \$ (100 ) \$ 1,408

---

Note 19 – Segment Information

Trustmark’s management reporting structure includes three segments: General Banking, Wealth Management and Insurance. For a complete overview of Trustmark’s operating segments, see Note 20 – Segment Information included in Part II, Item 8. – Financial Statements and Supplementary Data, of Trustmark’s 2017 Annual Report on Form 10-K. There have been no significant changes in Trustmark’s operating segments during the periods presented.

The accounting policies of each reportable segment are the same as those of Trustmark except for its internal allocations. Noninterest expenses for back-office operations support are allocated to segments based on estimated uses of those services. Trustmark measures the net interest income of its business segments with a process that assigns cost of funds or earnings credit on a matched-term basis. This process, called “funds transfer pricing”, charges an appropriate cost of funds to assets held by a business unit, or credits the business unit for potential earnings for carrying liabilities. The net of these charges and credits flows through to the General Banking segment, which contains the management team responsible for determining TNB’s funding and interest rate risk strategies.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table discloses financial information by reportable segment for the periods presented (\$ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>General Banking</b>				
Net interest income	\$106,784	\$103,408	\$313,299	\$302,613
Provision for loan losses, net	8,206	2,019	15,043	3,533
Noninterest income	28,557	26,570	87,587	88,830
Noninterest expense	89,889	88,814	267,462	284,420
Income before income taxes	37,246	39,145	118,381	103,490
Income taxes	3,536	7,130	13,430	19,772
General banking net income	\$33,710	\$32,015	\$104,951	\$83,718
<b>Selected Financial Information</b>				
Total assets	\$13,364,636	\$13,811,335	\$13,364,636	\$13,811,335
Depreciation and amortization	\$9,759	\$9,863	\$28,959	\$28,196
<b>Wealth Management</b>				
Net interest income	\$134	\$434	\$771	\$718
Noninterest income	7,769	7,512	22,768	22,513
Noninterest expense	7,194	6,791	19,996	20,361
Income before income taxes	709	1,155	3,543	2,870
Income taxes	177	441	886	1,098
Wealth management net income	\$532	\$714	\$2,657	\$1,772
<b>Selected Financial Information</b>				
Total assets	\$9,411	\$6,635	\$9,411	\$6,635
Depreciation and amortization	\$64	\$30	\$116	\$104
<b>Insurance</b>				
Net interest income	\$65	\$70	\$170	\$175
Noninterest income	10,767	10,398	30,922	29,360
Noninterest expense	8,140	7,481	24,030	22,437
Income before income taxes	2,692	2,987	7,062	7,098
Income taxes	681	1,137	1,774	2,726
Insurance net income	\$2,011	\$1,850	\$5,288	\$4,372
<b>Selected Financial Information</b>				
Total assets	\$65,765	\$66,685	\$65,765	\$66,685
Depreciation and amortization	\$155	\$159	\$437	\$481
<b>Consolidated</b>				
Net interest income	\$106,983	\$103,912	\$314,240	\$303,506
Provision for loan losses, net	8,206	2,019	15,043	3,533
Noninterest income	47,093	44,480	141,277	140,703
Noninterest expense	105,223	103,086	311,488	327,218

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Income before income taxes	40,647	43,287	128,986	113,458
Income taxes	4,394	8,708	16,090	23,596
Consolidated net income	\$36,253	\$34,579	\$112,896	\$89,862
Selected Financial Information				
Total assets	\$13,439,812	\$13,884,655	\$13,439,812	\$13,884,655
Depreciation and amortization	\$9,978	\$10,052	\$29,512	\$28,781



Note 20 – Accounting Policies Recently Adopted and Pending Accounting Pronouncements

Accounting Policies Recently Adopted

Except for the changes detailed below, Trustmark has consistently applied its accounting policies to all periods presented in the accompanying consolidated financial statements.

ASU 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” Issued in February 2018, ASU 2018-02 seeks to help entities reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Reform Act, enacted on December 22, 2017. ASU 2018-02 was issued in response to concerns regarding current guidance in GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income, rather than net income, and as a result the stranded tax effects would not reflect the appropriate tax rate. The amendments of ASU 2018-02 allow an entity to make a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects, which is the difference between the historical corporate income tax rate of 35.0% and the newly enacted corporate income tax rate of 21.0%. ASU 2018-02 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2018; however, public business entities are allowed to early adopt the amendments of ASU 2018-02 in any interim period for which the financial statements have not yet been issued. The amendments of ASU 2018-02 may be applied either at the beginning of the period (annual or interim) of adoption or retrospectively to each of the period(s) in which the effect of the change in the U.S. federal corporate tax rate in the Tax Reform Act is recognized. As a result of the re-measurement of Trustmark’s deferred tax assets following the enactment of the Tax Reform Act, accumulated other comprehensive loss included \$8.5 million of stranded tax effects at December 31, 2017. Trustmark early adopted the amendments of 2018-02 during the first quarter of 2018 and elected to reclassify the stranded tax effects from accumulated other comprehensive loss to retained earnings at the beginning of the period of adoption. The reclassification of the stranded tax effects resulted in an \$8.5 million increase in accumulated other comprehensive loss, net of tax and a corresponding increase in retained earnings.

ASU 2017-07, “Compensation-Retirement Benefits (Topic 715)-Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” Issued in March 2017, ASU 2017-07 is designed to improve guidance related to the presentation of defined benefit costs in the income statement. In particular, ASU No. 2017-07 requires that an employer report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, then that line item or items must be appropriately described. However, if a separate line item or items are not used, then the line item(s) used in the income statement to present the other components of net benefit cost must be disclosed. Additionally, ASU 2017-07 allows only the service cost component to be eligible for capitalization, when applicable. The amendments of ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement and prospectively, on or after the adoption date, for capitalization of the service cost component in assets. Management evaluated the amendments of this ASU and determined that the amendments of ASU 2017-07 would require a reclassification of the net periodic benefit cost, with the exception of the service cost component, from salaries and employee benefits to other expense on the consolidated statements of income for each period presented, which is not considered material to Trustmark’s consolidated financial statements. Trustmark adopted the

amendments of ASU 2017-07 effective January 1, 2018. Trustmark elected the available practical expedient which allows Trustmark to use the amounts disclosed in its pension and other postretirement benefits footnote for the prior comparative periods for applying the retrospective presentation requirements. As a result of the adoption of ASU 2017-07, Trustmark reclassified \$885 thousand and \$2.7 million of the net periodic benefit cost from salaries and employee benefits to other expense in the accompanying consolidated statements of income for the three and nine months ended September 30, 2018, respectively, compared to \$966 thousand and \$4.8 million for the three and nine months ended September 30, 2017, respectively.

ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of the FASB Accounting Standards Codification)." Issued in January 2016, ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The amendments of ASU 2016-01 include: (i) requiring equity investments, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income; (ii) requiring a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) requiring the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requiring an entity that has elected the fair value option

to measure the fair value of a liability to present separately in other comprehensive income the portion of the change in the fair value resulting from a change in the instrument-specific credit risk; (vi) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The amendments of ASU 2016-01 became effective for Trustmark on January 1, 2018. Trustmark's investments in member bank stock, which are equity securities that do not have readily determinable fair values, are not within the scope of ASU 2016-01. See Note 1 – Significant Accounting Policies, "Federal Home Loan Bank (FHLB) and Federal Reserve Bank of Atlanta Stock" included in Item 8 of Trustmark's 2017 Annual Report on Form 10-K for information regarding Trustmark's investment in member bank stock. Adoption of the amendments of ASU 2016-01 resulted in changes to Trustmark's fair value related disclosures, specifically amendments (iii) which eliminated the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet and (iv) which required the use of the exit price notion when measuring the fair value of the LHFI portfolio. Changes to Trustmark's fair value related disclosures are presented in Note 17 – Fair Value of this report. The adoption of ASU 2016-01 did not have a material impact on Trustmark's consolidated financial statements.

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Issued in May 2014, ASU 2014-09 will add FASB ASC Topic 606, "Revenue from Contracts with Customers," and will supersede revenue recognition requirements in FASB ASC Topic 605, "Revenue Recognition," as well as certain cost guidance in FASB ASC Topic 605-35, "Revenue Recognition – Construction-Type and Production-Type Contracts." ASU 2014-09 provides a framework for revenue recognition that replaces the existing industry and transaction specific requirements under the existing standards. ASU 2014-09 requires an entity to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount in which the entity expects to be entitled. Depending on whether certain criteria are met, revenue should be recognized either over time, in a manner that depicts the entity's performance, or at a point in time, when control of the goods or services are transferred to the customer. ASU 2014-09 provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In addition, the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in ASU 2014-09. The amendments of ASU 2014-09 may be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If the transition method of application is elected, the entity should also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The amendments of ASU 2014-09 and all subsequently issued ASUs, which provided additional guidance and clarifications to various aspects of FASB ASC Topic 606, became effective for Trustmark on January 1, 2018. Trustmark elected to adopt these amendments using the modified retrospective method (cumulative effect method) of application for only those contracts not completed as of the date of adoption; therefore, comparative information has not been adjusted and continues to be reported under legacy GAAP. Trustmark's contracts with customers are primarily for a term of one year or less and substantially all of Trustmark's contracts were completed as of January 1, 2018. Management determined that approximately 23% of the revenues earned by Trustmark are within the scope of ASU 2014-09, and, for most of the revenue streams within the scope of ASU 2014-09, the amendments do not change the timing or amount of revenue recognized. No cumulative adjustment was recorded as a result of the adoption of ASU 2014-09. Disclosures required by the amendments of ASU 2014-09 are presented in Note 10 – Revenue from Contracts with Customers of this report. The adoption of ASU 2014-09 did not have a material impact on Trustmark's consolidated financial statements. Changes

in Trustmark's accounting policies as a result of adopting the amendments of ASU 2014-09 included the following:

#### Bank Card and Other Fees

Previously, Trustmark recognized interchange fee revenue from point of sale transactions in full as noninterest income in bank card and other fees and recorded a separate expense as noninterest expense in other expense for the amounts payable to the payment network. Under the guidelines of FASB ASC Topic 606, Trustmark records the amounts payable to the payment network for point of sale transactions as noninterest income in bank card and other fees and, therefore, reports revenue from interchange fee contracts net of the considered for which Trustmark is not entitled.

#### Insurance Commissions

Commissions subject to clawback provisions are considered variable consideration subject to variable constraint under FASB ASC Topic 606. Previously, FBBI recognized revenue from insurance contracts in full when the commissions were invoiced or received and recorded a negative commission amount at the time the commissions were paid back to the insurance provider as a result of a

policy cancellation or lapse. No allowance for doubtful accounts was previously recorded related to the commission revenue subject to clawback provisions. As a result of the adoption of FASB ASC Topic 606, FBBI calculates a separate weighted-average percentage (returned commissions percentage) based on actual cancellations over the previous three years for commercial lines, bonds, and personal lines. FBBI applies the respective returned commissions percentage to the commission revenue earned related to insurance contracts within these three lines each month to calculate the estimated returned commissions amount, which represents the variable consideration subject to variable constraint. Revenue from insurance contracts is reported net of the estimated returned commissions amount (contra-revenue) and a corresponding liability is recorded in other liabilities. FBBI performs an analysis of the returned commissions reserve quarterly and adjusts the reserve balance based on all available information including actual cancellations and the remaining term of the contract. The returned commissions percentage is updated annually.

### Wealth Management

A portion of the revenue received by Trustmark from investment services and trust tax contracts are payable to third-parties for related services rendered and represents consideration for which Trustmark is not entitled under FASB ASC Topic 606. Previously, Trustmark recognized revenue from investment services and trust tax contracts in full as noninterest income in wealth management and recorded a separate expense for services rendered related to these contracts as noninterest expense in other expense. Under FASB ASC Topic 606, Trustmark records expenses for services rendered related to these contracts as noninterest income in wealth management (contra-revenue) and, as a result, revenue from wealth management contracts is reported net of the amount for which Trustmark is not entitled.

### Pending Accounting Pronouncements

ASU 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)." Issued in August 2018, ASU 2018-15 aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments of ASU 2018-15 require an entity to follow the guidance in FASB ASC Subtopic 350-40, "Intangibles-Goodwill and Other-Internal-Use Software," in order to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments of ASU 2018-15 also require an entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement (i.e. the noncancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the entity is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the entity is reasonably certain not to exercise the option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor). ASU 2018-15 also requires an entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement, and to classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. ASU 2018-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Trustmark does not currently have any material amount of implementation costs related to hosting arrangements that are service contracts and is not expected to have a material impact to Trustmark's consolidated financial statements; however, Management will continue to evaluate the impact of this ASU on future hosting arrangements as well as Trustmark's consolidated financial statements through its effective date.

ASU 2018-14, “Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans.” Issued in August 2018, ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14 remove certain disclosure requirements that are no longer considered cost beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. The amendments of ASU 2018-14 become effective for fiscal years beginning after December 15, 2020. Trustmark plans to adopt these amendments during the first quarter of 2021. Management is currently assessing all the potential impacts of the amendments in ASU 2018-14 on Trustmark’s consolidated financial statements; however, the adoption of ASU 2018-14 is not expected to have a material impact on Trustmark’s consolidated financial statements.

ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.” Issued in August 2018, the amendments in this ASU remove disclosure requirements in FASB ASC Topic 820 related to (1) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; (3) the valuation processes for Level 3 fair value measurements; and (4) for non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU also modifies disclosure requirements such that (1) in place of a rollforward for Level 3 fair

value measurements, a non-public entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date that restrictions from redemption might lapse, only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) it is clear that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additionally, this ASU adds disclosure requirements for public entities about (1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments of ASU 2018-13 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Trustmark plans to adopt ASU 2018-13 during the first quarter of 2020. Management is currently assessing all the potential impacts of the amendments in ASU 2018-13 on Trustmark's consolidated financial statements; however, the adoption of ASU 2018-13 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Issued in August 2017, ASU 2017-12 aims to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in ASU 2017-12 aim to better align an entity's risk management activities and financial reporting for hedging relationships by expanding and refining hedge accounting for both non-financial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in ASU 2017-12 (i) permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk; (ii) change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk; (iii) continue to allow an entity to exclude option premiums and forward points from the assessment of hedge effectiveness; and (iv) permit an entity to exclude the portion of the change in fair value of a currency swap that is attributable to a cross-country basis spread from the assessment of hedge effectiveness. The amendments of ASU 2017-12 also include targeted improvements intended to simplify the application of hedge accounting. The amendments of ASU 2017-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. All transition requirements and elections must be applied to all hedging relationships existing at the date of adoption. Trustmark plans to adopt ASU 2017-12 during the first quarter of 2019 using the required modified retrospective transition method. Trustmark will recognize the cumulative effect of the change, if any, in the beginning balance of each affected component of equity as of January 1, 2019. Management is currently assessing all the potential impacts of the amendments in ASU 2017-12 on Trustmark's consolidated financial statements; however, the adoption of ASU 2017-12 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." Issued in March 2017, ASU 2017-08 amends the amortization period for certain purchased callable debt securities held at a premium. In particular, the amendments in ASU 2017-08 require the premium to be amortized to the earliest call date. The amendments do not, however, require an accounting change for securities held at a discount; instead, the discount continues to be amortized to maturity. Notably, the amendments in this ASU more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. Securities within the scope of ASU 2017-08 are purchased debt securities that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. The amendments of ASU 2017-08 become effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Trustmark plans to adopt these amendments during the first quarter of 2019. As of September 30, 2018, Trustmark's total unamortized premium for purchased debt securities within the scope of ASU 2017-08 was immaterial. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated

financial statements through its effective date; however, the adoption of ASU 2017-08 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Issued in January 2017, ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective prospectively for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. Based on Trustmark's annual goodwill impairment test performed as of October 1, 2017, the fair value of its reporting units exceeded



the carrying value and, therefore, the related goodwill was not impaired. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated financial statements through its effective date; however, the adoption of ASU 2017-04 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Issued in June 2016, ASU 2016-13 will add FASB ASC Topic 326, "Financial Instruments-Credit Losses" and finalizes amendments to FASB ASC Subtopic 825-15, "Financial Instruments-Credit Losses." The amendments of ASU 2016-13 are intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendments of ASU 2016-13 eliminate the probable initial recognition threshold and, in turn, reflect an entity's current estimate of all expected credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a write-down. The amendments of ASU 2016-13 are effective for interim and annual periods beginning after December 15, 2019. Earlier application is permitted for interim and annual periods beginning after December 15, 2018. Trustmark has established a Current Expected Credit Loss (CECL) Steering Committee and a CECL Working Group which include the appropriate members of Management to evaluate the impact this ASU will have on Trustmark's financial position, results of operations and financial statement disclosures and determine the most appropriate method of implementing the amendments in this ASU as well as any resources needed to implement the amendments. Trustmark intends to adopt the amendments of ASU 2016-13 during the first quarter of 2020. Trustmark selected a third-party vendor to provide allowance for loan loss software as well as advisory services in developing a new methodology that would be compliant with amendments of ASU 2016-13, and is working with the approved third-party vendor to develop the CECL model and evaluate the impact to Trustmark. Trustmark is working with the third-party vendor on developing various modeling techniques and methodologies, which Management will review to determine the most appropriate model for Trustmark. Trustmark is on schedule to fully comply with all CECL requirements within its internally established timeframe for implementation. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated financial statements through its effective date.

ASU 2016-02, "Leases (Topic 842)." Issued in February 2016, ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments of ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842: Leases," which provides corrections or improvements to a number of areas within Topic 842 and has the same transition guidance and effective date as ASU 2016-02. The FASB also issued ASU 2018-11, "Leases (Topic 842)-Targeted Improvements", in July 2018, which provides entities with an additional and optional transition method to adopt the new lease standard and, for lessors only, a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component. The amendments in ASU 2018-11 allow an entity the option to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption as opposed to at the beginning of the earliest period presented in the financial statements. The amendments of ASU 2018-11 have the same effective date

as ASU 2016-02. Trustmark plans to adopt the amendments of ASU 2016-02 beginning in the first quarter of 2019. At adoption, Trustmark will recognize a lease asset and a corresponding lease liability on its consolidated balance sheet for its total lease obligation measured on a discounted basis. As of December 31, 2017, all leases in which Trustmark was the lessee were classified as operating leases and the total outstanding lease obligation was \$67.9 million, or 0.5% of total assets. Management is currently evaluating these lease obligations as potential lease assets and liabilities as defined by ASU 2016-02. Trustmark does not anticipate any material impact to its consolidated statements of income as a result of the adoption of this ASU. Trustmark has an immaterial amount of leases in which it is the lessor. Based on Management's evaluation to date, Trustmark does not expect the amendments of ASU 2016-02 to have any material impact to these leases or the related income. Trustmark has obtained a third-party software application which will provide lease contract maintenance and lease accounting under the guidelines of FASB ASC Topic 842. Management is currently in the process of loading all existing lease contracts into the software application. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated financial statements; however, the adoption of ASU 2016-02 is not expected to have a material impact on Trustmark's consolidated financial statements.

## 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 unaudited consolidated financial statements and the supplemental financial data included in Part I. Item 1. – Financial Statements of this report.

### Description of Business

Trustmark, a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark’s principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At September 30, 2018, TNB had total assets of \$13.437 billion, which represented approximately 99.98% of the consolidated assets of Trustmark.

Through TNB and its other subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through 198 offices and 2,889 full-time equivalent associates (measured at September 30, 2018) located in the states of Alabama, Florida (primarily in the northwest or “Panhandle” region of that state, which is referred to herein as Trustmark’s Florida market), Mississippi, Tennessee (in the Memphis and Northern Mississippi regions, which are collectively referred to herein as Trustmark’s Tennessee market), and Texas (primarily in Houston, which is referred to herein as Trustmark’s Texas market). Trustmark’s operations are managed along three operating segments: General Banking Division, Wealth Management Division and Insurance Division. For a complete overview of Trustmark’s business, see the section captioned “The Corporation” included in Part I. Item 1. – Business of Trustmark’s 2017 Annual Report on Form 10-K.

### Executive Overview

Trustmark continued to achieve solid financial results with total revenue of \$154.1 million and \$455.5 million for the three and nine months ended September 30, 2018, an increase of 3.8% and 2.5%, respectively, when compared to the same time periods in 2017. Trustmark continued to focus on its strategic initiatives of balance sheet optimization, capital deployment through additional share repurchases and disciplined expense management. Credit quality remained strong and continued to be an important contributor to Trustmark’s financial success. Trustmark is committed to investments to support profitable revenue growth as well as reengineering and efficiency opportunities to enhance shareholder value. Trustmark’s capital position remained solid, reflecting the consistent profitability of its diversified financial services businesses. Trustmark’s Board of Directors declared a quarterly cash dividend of \$0.23 per share. The dividend is payable December 15, 2018, to shareholders of record on December 1, 2018.

On October 10, 2018, Hurricane Michael struck the Florida Panhandle causing significant damages. As of September 30, 2018, Trustmark had 1,787 loans with a balance of \$239.7 million and exposure of \$282.1 million in the Federal Emergency Management Agency (FEMA) designated disaster areas which includes 12 counties in Florida and 20 counties in Georgia. Immediately following the storm, Trustmark initiated a process to identify all customers in the FEMA disaster areas. Efforts are now ongoing to contact those borrowers to offer assistance as well as to establish reasonable estimates of uninsured damage and to adequately assess potential risk to Trustmark. Management continues to evaluate the impact of Hurricane Michael and is unable to provide a reasonable estimate of the financial impact on Trustmark’s consolidated financial statements at this time.

### Recent Economic and Industry Developments

The economy continued to show moderate signs of improvement during the first nine months of 2018; however, economic concerns remain as a result of the cumulative weight of volatility in crude oil prices and uncertain growth prospects in Russia and other emerging markets, combined with uncertainty regarding the impact of further tightening

of the monetary policy by the Board of Governors of the Federal Reserve System (FRB), the consequences of the decision of the United Kingdom to exit the European Union, and the potential impact on the economy of the current presidential administration's policies. Doubts surrounding the near-term direction of global markets, and the potential impact of these trends on the United States economy, are expected to persist for the near term. While Trustmark's customer base is wholly domestic, international economic conditions affect domestic conditions, and thus may have an impact upon Trustmark's financial condition or results of operations.

In the September 2018 "Summary of Commentary on Current Economic Conditions by Federal Reserve Districts," the twelve Federal Reserve Districts' reports suggested national economic activity continued to expand at a moderate pace during the reporting period. Reports by the twelve Federal Reserve Districts noted consumer spending grew at a modest pace, tourism and transportation activities expanded, moderate growth in manufacturing activity, growth in lending activity and modest to moderate growth in employment and wages. Reports by the twelve Federal Reserve Districts also suggested that various sectors, including manufacturing, agriculture and transportation, have concerns regarding the impact of newly imposed and proposed tariffs, higher input prices (e.g. fuel, freight,

construction materials and metals) and supply disruptions and tight labor markets; however, businesses remained optimistic regarding the near-term outlook. The Federal Reserve's Sixth District, Atlanta (which includes Trustmark's Alabama, Florida and Mississippi market regions), reported that economic activity expanded at a moderate pace with optimistic outlooks for steady growth in the near-term, labor markets remained tight and wage growth remained steady, retail sales improved, nonresidential construction activity was flat while residential construction activity increased and manufacturing activity improved. The Federal Reserve's Eighth District, St. Louis (which includes Trustmark's Tennessee market region), reported that economic conditions improved slightly, labor markets remained tight with modest growth in wages, consumer spending improved slightly, modest improvements in construction activity and banking conditions remained stable with little change in loan demand. The Federal Reserve's Eleventh District, Dallas (which includes Trustmark's Texas market region), reported economic activity expanded at a solid pace, noting increased manufacturing activity, improvements in retail sales and broad-based expansion in the nonfinancial services sectors. The Federal Reserve's Eleventh District also reported increased demand for loans, with stronger growth seen in commercial and residential real estate loans and commercial and industrial loans, increased loan pricing and higher deposit volumes; however, while outlooks remained optimistic, concerns regarding regulatory compliance, tariffs and flattening of the yield curve were noted.

During September 2018, the FRB increased the target range for the federal funds rate for the third time in 2018 as anticipated. The FRB also continues to reduce the size of its balance sheet. It is not possible to predict the impact, if any, on market interest rates (or on markets generally) of efforts by the FRB to continue to reduce the size of its balance sheet. Notwithstanding recent increases in the target rate for federal funds by the FRB, interest rates remain in a historically low range, and this continues to place pressure on net interest margins for Trustmark (as well as its competitors). The FRB has indicated that it intends to continue to raise rates in 2018. Further increases in interest rates will place competitive pressures on the deposit cost of funds. It is not possible to predict the pace and magnitude of rising interest rates, or the impact rising rates will have on Trustmark's results of operations.

### Financial Highlights

Trustmark reported net income of \$36.3 million, or basic and diluted earnings per share (EPS) of \$0.54, in the third quarter of 2018, compared to \$34.6 million, or basic and diluted EPS of \$0.51, in the third quarter of 2017. The increase in net income when the third quarter of 2018 is compared to the same time period in 2017 was principally due to the increase in total revenue and a decrease in income taxes, primarily due to the decrease in the statutory corporate tax rate as a result of the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Reform Act), which were largely offset by increases in the total provision for loan losses, net and noninterest expense. These factors are discussed in greater detail below. Trustmark's reported performance during the quarter ended September 30, 2018 produced a return on average tangible equity of 12.26%, a return on average assets of 1.07%, an average equity to average assets ratio of 11.86% and a dividend payout ratio of 42.59%, compared to a return on average tangible equity of 11.95%, a return on average assets of 0.99%, an average equity to average assets ratio of 11.36% and a dividend payout ratio of 45.10% during the quarter ended September 30, 2017.

Trustmark reported net income of \$112.9 million, or basic and diluted EPS of \$1.67, for the first nine months of 2018, compared to \$89.9 million, or basic and diluted EPS of \$1.33 and \$1.32, respectively, for the first nine months of 2017. The increase in net income when the first nine months of 2018 is compared to the same time period in 2017 was principally due to the decrease in noninterest expense, primarily due to non-routine expenses related to the defined benefit pension plan termination and the Reliance merger incurred during the second quarter of 2017, an increase in total revenue and a decrease in income taxes, partially offset by an increase in the total provision for loan losses, net. These factors are discussed in greater detail below. Trustmark's performance during the first nine months of 2018 produced a return on average tangible equity of 13.02%, a return on average assets of 1.12%, an average equity to average assets ratio of 11.72% and a dividend payout ratio of 41.32%, compared to a return on average tangible equity of 10.68%, a return on average assets of 0.88%, an average equity to average assets ratio of 11.37%

and a dividend payout ratio of 51.88% during the first nine months of 2017.

Total revenue, which is defined as net interest income plus noninterest income, for the three and nine months ended September 30, 2018 was \$154.1 million and \$455.5 million, respectively, an increase of \$5.7 million, or 3.8%, and \$11.3 million, or 2.5%, respectively, when compared to the same time periods in 2017. The increase in total revenue for the three and nine months ended September 30, 2018 was principally the result of increases in interest and fees on LHFS and LHFI and mortgage banking, net and a decrease in other interest expense, partially offset by an increase in interest on deposits and declines in interest on securities and other noninterest income.

Interest and fees on LHFS and LHFI for the three and nine months ended September 30, 2018 increased \$13.9 million, or 15.6%, and \$37.9 million, or 14.9%, respectively, compared to the same time periods in 2017, primarily due to an increase in the LHFI portfolio as well as higher yields on LHFI. LHFI totaled \$8.747 billion at September 30, 2018, an increase of \$339.7 million, or 4.0%, when compared to September 30, 2017, principally due to net growth in loans secured by real estate in Trustmark's Alabama, Mississippi and Florida market regions. Mortgage banking, net for the three and nine months ended September 30, 2018 increased \$4.2 million, or 95.4%, and \$5.3 million, or 22.6%, respectively, compared to the same time periods in 2017, principally due to increases in the net

positive hedge ineffectiveness and gain on sales of loans, net. Other interest expense for the three and nine months ended September 30, 2018 decreased \$3.1 million, or 67.5%, and \$4.2 million, or 39.2%, respectively, when compared to the same time periods in 2017, principally due to a decline in interest on Federal Home Loan Bank (FHLB) advances as a result of the decrease in the amount of outstanding short-term FHLB advances with the FHLB of Dallas. Interest expense on deposits for the three and nine months ended September 30, 2018 increased \$8.6 million and \$21.2 million, respectively, when compared to the same time periods in 2017, principally due to rising interest rates in general, accompanied by increases in average balances of all categories of interest-bearing deposits. Interest on securities for the three and nine months ended September 30, 2018 declined \$3.3 million, or 16.5%, and \$7.9 million, or 13.1%, respectively, when compared to the same time periods in 2017, primarily as a result of run-off of maturing investment securities. Other noninterest income for the three and nine months ended September 30, 2018 decreased \$2.4 million, or 63.7%, and \$6.4 million, or 57.1%, respectively, when compared to the same time periods in 2017, principally due to \$2.7 million of nontaxable proceeds related to bank-owned life insurance received during the third quarter of 2017 and \$4.9 million in nontaxable proceeds related to life insurance acquired in a previous acquisition received during the second quarter of 2017.

Trustmark's provision for loan losses, LHFI for the three and nine months ended September 30, 2018 totaled \$8.7 million and \$15.8 million, respectively, an increase of \$5.0 million and \$6.4 million, respectively, when compared to the provision for loan losses, LHFI for the three and nine months ended September 30, 2017. Please see the section captioned "Provision for Loan Losses, LHFI," for additional information regarding the provision for loan losses, LHFI. The provision for loan losses, acquired loans for the three and nine months ended September 30, 2018 totaled a negative \$467 thousand and \$758 thousand, respectively, a decrease of \$1.2 million, or 71.7%, and \$5.1 million, or 87.0%, respectively, when compared to a negative provision of \$1.7 million and \$5.8 million for the three and nine months ended September 30, 2017, respectively. Please see the section captioned "Provision for Loan Losses, Acquired Loans," for additional information regarding the provision for loan losses, acquired loans. In total, the provision for loan losses, net was \$8.2 million and \$15.0 million for the three and nine months ended September 30, 2018, respectively, an increase of \$6.2 million and \$11.5 million, respectively, when compared to the same time periods in 2017.

Noninterest expense for the three and nine months ended September 30, 2018 totaled \$105.2 million and \$311.5 million, respectively, an increase of \$2.1 million, or 2.1%, and a decrease of \$15.7 million, or 4.8%, respectively, when compared to the same time periods in 2017. The increase in noninterest expense for the three months ended September 30, 2018 when compared to the same time period in 2017 was principally due to increases in salaries and employee benefits and services and fees partially offset by a decrease in other expense. The decrease in noninterest expense when the first nine months of 2018 is compared to the same time period in 2017 was principally due to non-routine transaction expenses incurred during the second quarter of 2017 as well as a decline in other expense partially offset by increases in salaries and employee benefits and services and fees. During the second quarter of 2017, Trustmark incurred non-routine transaction expenses of \$17.6 million related to the termination of the defined benefit pension plan and \$3.2 million related to the completion of the Reliance merger.

At September 30, 2018, nonperforming assets, excluding acquired loans, totaled \$104.3 million, a decrease of \$6.5 million, or 5.9%, compared to December 31, 2017, primarily due to the decline in other real estate. Nonaccrual LHFI totaled \$67.8 million at September 30, 2018, representing an increase of \$261 thousand, or 0.4%, relative to December 31, 2017. Other real estate declined \$6.8 million, or 15.6%, during the first nine months of 2018 primarily due to properties sold in Trustmark's Florida, Mississippi, Alabama and Tennessee market regions partially offset by new properties foreclosed in the Mississippi and Florida market regions.

LHFI totaled \$8.747 billion at September 30, 2018, an increase of \$177.1 million, or 2.1%, compared to December 31, 2017. The increase in LHFI during the first nine months of 2018 was primarily due to net growth in loans secured by real estate in Trustmark's Mississippi, Alabama and Florida market regions. For additional information regarding

changes in LHFI and comparative balances by loan category, see the section captioned “LHFI.”

Both classified and criticized LHFI balances remained at low levels and continued to reflect strong credit quality during the first nine months of 2018. As of September 30, 2018, classified LHFI balances decreased \$68.2 million, or 32.2%, while criticized LHFI balances decreased \$75.7 million, or 29.8%, when compared to balances at December 31, 2017. All of the credits have been reserved for appropriately.

Management has continued its practice of maintaining excess funding capacity to provide Trustmark with adequate liquidity for its ongoing operations. In this regard, Trustmark benefits from its strong deposit base, its highly liquid investment portfolio and its access to funding from a variety of external funding sources such as upstream federal funds lines, FHLB advances and, on a limited basis, brokered deposits.



Total deposits were \$10.957 billion at September 30, 2018, an increase of \$379.4 million, or 3.6%, compared to December 31, 2017. During the first nine months of 2018, noninterest-bearing deposits decreased \$191.5 million, or 6.4%, as a result of declines in all categories of noninterest-bearing deposit accounts, while interest-bearing deposits increased \$570.9 million, or 7.5%, primarily due to growth in public and commercial interest checking accounts, commercial and consumer money market deposit accounts and consumer and public certificates of deposits, reflecting increases in interest rates in general.

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposits growth. Short-term borrowings totaled \$676.9 million at September 30, 2018, a decrease of \$764.0 million, or 53.0%, when compared to December 31, 2017. The decrease in short-term borrowings during the first nine months of 2018 was primarily due to a \$775.0 million decrease in the outstanding balance of short-term FHLB advances, as maturing short-term advances with the FHLB of Dallas were not replaced due to changes in Trustmark's funding needs.

#### Recent Legislative and Regulatory Developments

In April 2018, the federal banking agencies issued a notice of proposed rulemaking to revise their regulatory capital rules to address the Current Expected Credit Losses (CECL) accounting standard, and provide an option to phase in the day-one regulatory capital effects of the adoption of the CECL accounting standard over three years. Under the proposed rules, an institution that is required to adopt the CECL accounting standard beginning the first quarter of 2020, such as Trustmark, would be able to make a one-time election to phase in the effects of the accounting standard on its regulatory capital calculations, such that the effects of adopting the CECL accounting standard on regulatory capital would be fully phased in as of the first quarter of 2023. For additional information regarding Trustmark's implementation of the CECL accounting standard, see the section captioned "Pending Accounting Pronouncements – ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" included in Note 20 – Accounting Policies Recently Adopted and Pending Accounting Pronouncements in Part I. Item 1. – Financial Statements of this report.

During April 2016, the Department of Labor (DOL) issued a final rule related to fiduciary standards that apply to the provision of advice to clients with respect to the investing of certain of their retirement accounts. The final rule expanded the definition of a fiduciary under the Employee Retirement Income Security Act of 1974, as amended. Under the rule, those who provide investment advice to plans, plan sponsors, fiduciaries, plan participants, beneficiaries and IRAs and IRA owners would generally either avoid payments that create conflicts of interest or satisfy an exemption from these requirements issued by the DOL, subject to certain exemptions. The DOL repeatedly extended the rule's applicability date. Before the rule became fully applicable, the United States Court of Appeals for the Fifth Circuit, which covers Mississippi, Texas and Louisiana, vacated the fiduciary rule in its entirety, and the DOL did not appeal the decision.

However, on April 18, 2018, the SEC proposed a rule concerning the standards of conduct for financial professionals. The SEC's proposed rule would require broker-dealers to act in the best interest of their retail customers when recommending securities and to provide additional disclosure about the scope and terms of the relationship. The proposed rule would clarify the fiduciary duty that an investment advisor owes to its clients and would specify that investment advisors have an affirmative duty of utmost good faith and full and fair disclosure of all material facts to their investors. It is not clear when or if a final rule or guidance will be adopted and how the comments received might alter the provisions now in the proposals. Management is engaged in a review of the potential impact the SEC's proposed rule may have on the results of operations or financial condition of Trustmark or TNB.

On May 24, 2018, the president signed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) into law. The EGRRCPA increases the thresholds for application of certain enhanced prudential standards that the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) had applied to

institutions of Trustmark's size. Under the EGRRCPA, the Dodd-Frank Act Stress Test (DFAST) company-run stress test requirement applies to bank holding companies and banks with \$250 billion or more in total consolidated assets, rather than those with \$10 billion or more in total consolidated assets as was the case under the Dodd-Frank Act. The EGRRCPA also increases the threshold for application of the Dodd-Frank Act's risk committee requirement for publicly-traded bank holding companies, from \$10 billion to \$50 billion in total consolidated assets. Additionally, the EGRRCPA amends the federal banking agencies' regulatory capital rules to narrow the definition of high volatility commercial real estate (HVCRE) loans, which receive a higher risk weighting than other commercial real estate loans under risk-based capital requirements. Each of these changes has already taken effect for institutions of Trustmark's and TNB's size. In light of Trustmark's total consolidated assets, Management does not believe that the EGRRCPA will have an impact on Trustmark's results of operations or financial condition.

In June 2018, five federal financial agencies released a proposal that would simplify and tailor compliance requirements relating to regulations implementing section 13 of the Bank Holding Company Act, known as the "Volcker Rule." The Volcker Rule generally prohibits insured depository institutions and their affiliates from engaging in proprietary trading or investing in or maintaining certain relationships with certain investment funds. The proposal would replace compliance program requirements for a banking entity with

trading assets and liabilities of less than \$1 billion, including Trustmark and TNB, with a rebuttable presumption of the entity's compliance with the Volcker Rule, and would simplify compliance requirements associated with exempt market making, underwriting, and risk-mitigating hedging activities for such an entity. The proposal would also change the Volcker Rule's definition of "trading account" by replacing the definition's prong addressing the "purpose" of a trade with a new prong that is based on the accounting treatment of a position. Management is reviewing the potential impact of the proposal on Trustmark and TNB.

For additional information regarding legislation and regulation applicable to Trustmark, see the section captioned "Supervision and Regulation" included in Part I. Item 1. – Business of Trustmark's 2017 Annual Report on Form 10-K.

#### Selected Financial Data

The following tables present financial data derived from Trustmark's consolidated financial statements as of and for the periods presented (\$ in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Consolidated Statements of Income</b>				
Total interest income	\$124,770	\$116,114	\$360,676	\$332,796
Total interest expense	17,787	12,202	46,436	29,290
Net interest income	106,983	103,912	314,240	303,506
Provision for loan losses, LHFI	8,673	3,672	15,801	9,355
Provision for loan losses, acquired loans	(467 )	(1,653 )	(758 )	(5,822 )
Noninterest income	47,093	44,480	141,277	140,703
Noninterest expense	105,223	103,086	311,488	327,218
Income before income taxes	40,647	43,287	128,986	113,458
Income taxes	4,394	8,708	16,090	23,596
Net Income	\$36,253	\$34,579	\$112,896	\$89,862
<b>Total Revenue (1)</b>	<b>\$154,076</b>	<b>\$148,392</b>	<b>\$455,517</b>	<b>\$444,209</b>
<b>Per Share Data</b>				
Basic earnings per share	\$0.54	\$0.51	\$1.67	\$1.33
Diluted earnings per share	0.54	0.51	1.67	1.32
Cash dividends per share	0.23	0.23	0.69	0.69
<b>Performance Ratios</b>				
Return on average equity	9.00	% 8.69	% 9.53	% 7.73
Return on average tangible equity	12.26	% 11.95	% 13.02	% 10.68
Return on average assets	1.07	% 0.99	% 1.12	% 0.88
Average equity/average assets	11.86	% 11.36	% 11.72	% 11.37
Net interest margin (fully taxable equivalent)	3.59	% 3.47	% 3.54	% 3.48
Dividend payout ratio	42.59	% 45.10	% 41.32	% 51.88
<b>Credit Quality Ratios (2)</b>				
Net charge-offs (recoveries)/average loans	0.18	% -0.02	% 0.08	% —
Provision for loan losses/average loans	0.39	% 0.17	% 0.24	% 0.15
Nonperforming loans/total loans (incl LHFS)	0.76	% 0.80	%	

Nonperforming assets/total loans (incl LHFS)

plus other real estate	1.16	%	1.36	%
Allowance for loan losses/total loans (excl LHFS)	1.02	%	0.96	%

64

---

September 30,	2018	2017	
<b>Consolidated Balance Sheets</b>			
Total assets	\$13,439,812	\$13,884,655	
Securities	2,808,516	3,471,372	
Total loans (including LHFS and acquired loans)	9,062,309	8,895,255	
Deposits	10,956,910	10,231,742	
Total shareholders' equity	1,599,604	1,582,535	
<b>Stock Performance</b>			
Market value - close	\$33.65	\$33.12	
Book value	23.66	23.36	
Tangible book value	17.86	17.49	
<b>Capital Ratios</b>			
Total equity/total assets	11.90	%	11.40 %
Tangible equity/tangible assets	9.26	%	8.79 %
Tangible equity/risk-weighted assets	11.31	%	11.29 %
Tier 1 leverage ratio	10.41	%	9.61 %
Common equity tier 1 risk-based capital ratio	12.20	%	11.80 %
Tier 1 risk-based capital ratio	12.76	%	12.37 %
Total risk-based capital ratio	13.61	%	13.19 %

(1) Consistent with Trustmark's audited annual financial statements, total revenue is defined as net interest income plus noninterest income

(2) Excludes acquired loans

#### Non-GAAP Financial Measures

In addition to capital ratios defined by U.S. generally accepted accounting principles (GAAP) and banking regulators, Trustmark utilizes various tangible common equity measures when evaluating capital utilization and adequacy. Tangible common equity, as defined by Trustmark, represents common equity less goodwill and identifiable intangible assets.

Trustmark believes these measures are important because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of Trustmark's capitalization to other organizations. These ratios differ from capital measures defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies across organizations. In Management's experience, many stock analysts use tangible common equity measures in conjunction with more traditional bank capital ratios to compare capital adequacy of banking organizations with significant amounts of goodwill or other tangible assets, typically stemming from the use of the purchase accounting method in accounting for mergers and acquisitions.

These calculations are intended to complement the capital ratios defined by GAAP and banking regulators. Because GAAP does not include these capital ratio measures, Trustmark believes there are no comparable GAAP financial measures to these tangible common equity ratios. Despite the importance of these measures to Trustmark, there are no standardized definitions for them and, as a result, Trustmark's calculations may not be comparable with other organizations. Also there may be limits in the usefulness of these measures to investors. As a result, Trustmark

encourages readers to consider its consolidated financial statements and the notes related thereto in their entirety and not to rely on any single financial measure.

65

---

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table reconciles Trustmark's calculation of these measures to amounts reported under GAAP for the periods presented (\$ in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>TANGIBLE EQUITY</b>				
<b>AVERAGE BALANCES</b>				
Total shareholders' equity	\$ 1,597,588	\$ 1,577,867	\$ 1,584,095	\$ 1,554,566
Less: Goodwill	(379,627 )	(379,627 )	(379,627 )	(374,707 )
Identifiable intangible assets	(13,083 )	(18,714 )	(14,405 )	(19,454 )
Total average tangible equity	\$ 1,204,878	\$ 1,179,526	\$ 1,190,063	\$ 1,160,405
<b>PERIOD END BALANCES</b>				
Total shareholders' equity	\$ 1,599,604	\$ 1,582,535		
Less: Goodwill	(379,627 )	(379,627 )		
Identifiable intangible assets	(12,391 )	(17,883 )		
Total tangible equity (a)	\$ 1,207,586	\$ 1,185,025		
<b>TANGIBLE ASSETS</b>				
Total assets	\$ 13,439,812	\$ 13,884,655		
Less: Goodwill	(379,627 )	(379,627 )		
Identifiable intangible assets	(12,391 )	(17,883 )		
Total tangible assets (b)	\$ 13,047,794	\$ 13,487,145		
Risk-weighted assets (c)	\$ 10,681,621	\$ 10,498,582		
<b>NET INCOME ADJUSTED FOR INTANGIBLE AMORTIZATION</b>				
Net income	\$ 36,253	\$ 34,579	\$ 112,896	\$ 89,862
Plus: Intangible amortization net of tax	965	950	2,979	2,870
Net income adjusted for intangible amortization	\$ 37,218	\$ 35,529	\$ 115,875	\$ 92,732
Period end shares outstanding (d)	67,621,369	67,742,135		
<b>TANGIBLE EQUITY MEASUREMENTS</b>				
Return on average tangible equity (1)	12.26	% 11.95	% 13.02	% 10.68
Tangible equity/tangible assets (a)/(b)	9.26	% 8.79	%	
Tangible equity/risk-weighted assets (a)/(c)	11.31	% 11.29	%	
Tangible book value (a)/(d)*1,000	\$ 17.86	\$ 17.49		
<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>				
Total shareholders' equity	\$ 1,599,604	\$ 1,582,535		
AOCI-related adjustments	79,946	27,825		
<b>CET1 adjustments and deductions:</b>				
Goodwill net of associated deferred tax liabilities (DTLs)	(365,823 )	(359,841 )		
	(10,868 )	(11,359 )		

Other adjustments and deductions for  
CET1 (2)

CET1 capital	(e)	1,302,859	1,239,160
Additional tier 1 capital instruments plus related surplus		60,000	60,000
Less: additional tier 1 capital deductions		—	(471 )
Additional tier 1 capital		60,000	59,529
Tier 1 Capital		\$1,362,859	\$1,298,689

Common equity tier 1 risk-based capital ratio	(e)/(c)	12.20	%	11.80	%
--	---------	-------	---	-------	---

(1) Calculated using annualized net income adjusted for intangible amortization divided by total average tangible equity

(2) Includes other intangible assets, net of DTLs, disallowed deferred tax assets, threshold deductions and transition adjustments, as applicable

66

---



## Significant Non-Routine Transactions

Trustmark discloses certain non-GAAP financial measures, including net income adjusted for significant non-routine transactions, because Management uses these measures for business planning purposes, including to manage Trustmark's business against internal projected results of operations and to measure Trustmark's performance. Trustmark views net income adjusted for significant non-routine transactions as a measure of its core operating business, which excludes the impact of the items detailed below, as these items are generally not operational in nature. This non-GAAP measure also provides another basis for comparing period-to-period results as presented in the accompanying selected financial data table and the consolidated financial statements by excluding potential differences caused by non-operational and unusual or non-recurring items. Readers are cautioned that these adjustments are not permitted under GAAP. Trustmark encourages readers to consider its consolidated financial statements and the notes related thereto in their entirety, and not to rely on any single financial measure.

The following table presents adjustments to net income and selected financial ratios as reported in accordance with GAAP resulting from significant non-routine transactions occurring during the periods presented (\$ in thousands, except per share data):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Net Income (GAAP)	\$36,253	\$ 0.535	\$34,579	\$ 0.509	\$112,896	\$ 1.668	\$89,862	\$ 1.324
Significant non-routine transactions (net of taxes):								
Defined benefit plan termination	—	—	—	—	—	—	10,895	0.161
Reliance merger transaction expenses	—	—	—	—	—	—	1,999	0.029
Non-taxable gain on acquired life insurance proceeds	—	—	—	—	—	—	(4,894 )	(0.072 )
Net Income adjusted for significant non-routine transactions (Non-GAAP)	\$36,253	\$ 0.535	\$34,579	\$ 0.509	\$112,896	\$ 1.668	\$97,862	\$ 1.442
	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)
	9.00 %	n/a	8.69 %	n/a	9.53 %	n/a	7.73 %	8.42 %

Return on average equity													
Return on average tangible equity	12.26	%	n/a	11.95	%	n/a	13.02	%	n/a	10.68	%	11.61	%
Return on average assets	1.07	%	n/a	0.99	%	n/a	1.12	%	n/a	0.88	%	0.96	%
n/a – not applicable													

## 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 is computed by dividing fully taxable equivalent (FTE) net interest income by average interest-earning assets and measures how effectively Trustmark utilizes its interest-earning assets in relationship to the interest cost of funding them. The accompanying Yield/Rate Analysis Tables 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 FTE basis using the federal statutory corporate tax rate in effect for each of the periods shown. Loans on nonaccrual 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 were immaterial.

Net interest income-FTE for the three and nine months ended September 30, 2018 increased \$1.2 million, or 1.1%, and \$5.6 million, or 1.8%, respectively, when compared with the same time periods in 2017. The net interest margin for the three and nine months ended September 30, 2018 increased 12 and 6 basis points to 3.59% and 3.54%, respectively, when compared to the same time periods in 2017. The increase in the net interest margin for the three and nine months ended September 30, 2018 was principally due to growth in the yield on the LHFI and LHFS portfolios, run-off of maturing investment securities and a favorable funding mix, partially offset by higher costs of interest-bearing deposits and a decrease in the fully tax equivalent adjustment as a result of the lower corporate tax rate due to the enactment of the Tax Reform Act. The net interest margin excluding acquired loans, which equals the reported net interest income-FTE excluding interest and fees on acquired loans, as a percentage of average earning assets excluding

average acquired loans, for the three and nine months ended September 30, 2018 increased 16 and 8 basis points to 3.50% and 3.44%, respectively, when compared to the same time periods in 2017, due to the factors discussed above.

Average interest-earning assets for the first nine months of 2018 were \$12.236 billion compared to \$12.221 billion for the same time period in 2017, an increase of \$14.6 million, or 0.1%. The growth in average earning assets during the first nine months of 2018 was primarily due to increases in average loans (LHFS and LHFI) of \$431.4 million, or 5.2%, and average other earning assets of \$115.9 million, which were largely offset by decreases in average total securities of \$439.7 million, or 12.5% and average acquired loans of \$91.2 million, or 31.6%. The increase in average loans (LHFS and LHFI) was primarily attributable to the \$339.7 million, or 4.0%, increase in the LHFI portfolio when balances at September 30, 2018 are compared to balances at September 30, 2017. This increase was principally due to net growth in loans secured by real estate in Trustmark's Alabama, Mississippi and Florida market regions. The increase in average other earning assets when the first nine months of 2018 is compared to the same time period in 2017 was primarily due to growth in interest-bearing deposits due from depository institutions. The decrease in average total securities was primarily due to calls, maturities and pay-downs of the underlying loans of government-sponsored enterprise (GSE) guaranteed securities as well as declines in the fair market value of the securities available for sale. The decrease in average acquired loans when the first nine months of 2018 is compared to the same time period in 2017 was primarily due to pay-downs and pay-offs of the acquired loans as well as acquired loans that were transferred to LHFI.

During the first nine months of 2018, interest and fees on LHFS and LHFI-FTE increased \$33.5 million, or 12.5%, when compared to the same time period in 2017, due principally to the growth in the LHFI portfolio, while the yield on loans (LHFS and LHFI) increased 30 basis points to 4.59% as a result of increases in interest rates during the period. During the first nine months of 2018, interest on securities-FTE decreased \$8.6 million, or 14.1%, compared to the same time period in 2017, primarily due to the run off of maturing investment securities. The yield on total securities for the first nine months of 2018 decreased 5 basis points to 2.28% compared to the same time period in 2017. As a result of these factors, interest income-FTE increased \$22.7 million, or 6.5%, when the first nine months of 2018 is compared to the same time period in 2017, while the yield on total earning assets increased 25 basis points to 4.05%.

Average interest-bearing liabilities for the first nine months of 2018 totaled \$8.839 billion compared to \$8.914 billion for the same time period in 2017, a decrease of \$75.3 million, or 0.8%. The decrease in average interest-bearing liabilities represented declines in average other borrowings and average federal funds purchased and securities sold under repurchase agreements which were mostly offset by an increase in average interest-bearing deposits. Average other borrowings decreased \$827.6 million, or 64.5%, when the first nine months of 2018 is compared to the same time period in 2017, primarily reflecting a decrease in the balance of outstanding short-term FHLB advances obtained from the FHLB of Dallas. Average federal funds purchased and securities sold under repurchase agreements for the first nine months of 2018 declined \$198.2 million, or 37.8%, when compared to the same time period in 2017, primarily due to a decrease in upstream federal funds purchased as a result of increases in interest rates and changes in funding needs. Average interest-bearing deposits for the first nine months of 2018 increased \$950.5 million, or 13.4%, when compared to the same time period in 2017, as a result of growth in all categories of average interest-bearing deposits primarily due to increases in interest rates in general.

Total interest expense for the first nine months of 2018 increased \$17.1 million, or 58.5%, when compared with the same time period in 2017 due primarily to an increase in interest on deposits, in conjunction with increasing interest rates in general, partially offset by a decline in other interest expense. Interest on deposits increased \$21.2 million while the rate on interest-bearing deposits increased 32 basis points to 0.61% when the first nine months of 2018 is compared to the same time period in 2017, primarily due to increases in average balances of all categories of interest-bearing deposits and rising interest rates in general. Other interest expense decreased \$4.2 million, or 39.2%, when the first nine months of 2018 is compared to the same time period in 2017, primarily due to the decline in the

balance of outstanding short-term FHLB advances with the FHLB of Dallas, while the rate on other borrowings increased 80 basis points to 1.93% reflecting an increase in rates. As a result of these factors, the overall yield on interest-bearing liabilities increased 26 basis points to 0.70% when the first nine months of 2018 is compared with the first nine months of 2017.

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following tables provide the tax equivalent basis yield or rate for each component of the tax equivalent net interest margin for the periods presented (\$ in thousands):

	Three Months Ended September 30,					
	2018			2017		
	Average		Yield/	Average		Yield/
	Balance	Interest	Rate	Balance	Interest	Rate
<b>Assets</b>						
Interest-earning assets:						
Federal funds sold and securities purchased under						
reverse repurchase agreements	\$477	\$3	2.50 %	\$3,582	\$14	1.55 %
Securities - taxable	2,871,101	16,186	2.24 %	3,436,509	19,291	2.23 %
Securities - nontaxable	71,072	656	3.66 %	100,823	1,104	4.34 %
Loans (LHFS and LHFI)	8,907,588	105,993	4.72 %	8,532,523	93,703	4.36 %
Acquired loans	147,811	4,033	10.82 %	299,221	6,625	8.78 %
Other earning assets	189,471	1,050	2.20 %	84,320	355	1.67 %
Total interest-earning assets	12,187,520	127,921	4.16 %	12,456,978	121,092	3.86 %
Cash and due from banks	330,949			312,409		
Other assets	1,035,327			1,202,766		
Allowance for loan losses, net	(86,496 )			(85,363 )		
Total Assets	\$13,467,300			\$13,886,790		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing deposits	\$8,177,057	14,972	0.73 %	\$7,213,070	6,381	0.35 %
Federal funds purchased and securities sold under						
repurchase agreements	347,489	1,348	1.54 %	547,863	1,301	0.94 %
Other borrowings	249,052	1,467	2.34 %	1,398,302	4,520	1.28 %
Total interest-bearing liabilities	8,773,598	17,787	0.80 %	9,159,235	12,202	0.53 %
Noninterest-bearing demand deposits	2,894,061			3,003,763		
Other liabilities	202,053			145,925		
Shareholders' equity	1,597,588			1,577,867		
Total Liabilities and Shareholders' Equity	\$13,467,300			\$13,886,790		
Net Interest Margin		110,134	3.59 %		108,890	3.47 %
Less tax equivalent adjustment		3,151			4,978	
<b>Net Interest Margin per Consolidated</b>						
Statements of Income		\$106,983			\$103,912	

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Nine Months Ended September 30,					
	2018			2017		
	Average		Yield/	Average		Yield/
	Balance	Interest	Rate	Balance	Interest	Rate
<b>Assets</b>						
Interest-earning assets:						
Federal funds sold and securities purchased under						
reverse repurchase agreements	\$673	\$10	1.99 %	\$2,399	\$26	1.45 %
Securities - taxable	3,008,755	50,586	2.25 %	3,418,925	57,865	2.26 %
Securities - nontaxable	80,644	2,213	3.67 %	110,215	3,582	4.35 %
Loans (LHFS and LHFI)	8,751,665	300,466	4.59 %	8,320,255	266,979	4.29 %
Acquired loans	197,352	13,932	9.44 %	288,599	18,077	8.37 %
Other earning assets	196,470	3,038	2.07 %	80,553	993	1.65 %
Total interest-earning assets	12,235,559	370,245	4.05 %	12,220,946	347,522	3.80 %
Cash and due from banks	328,868			310,313		
Other assets	1,036,091			1,222,619		
Allowance for loan losses, net	(85,054 )			(84,036 )		
Total Assets	\$13,515,464			\$13,669,842		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing deposits	\$8,056,505	36,602	0.61 %	\$7,106,046	15,433	0.29 %
Federal funds purchased and securities sold under						
repurchase agreements	326,129	3,260	1.34 %	524,295	3,036	0.77 %
Other borrowings	456,189	6,574	1.93 %	1,283,756	10,821	1.13 %
Total interest-bearing liabilities	8,838,823	46,436	0.70 %	8,914,097	29,290	0.44 %
Noninterest-bearing demand deposits	2,902,100			3,040,672		
Other liabilities	190,446			160,507		
Shareholders' equity	1,584,095			1,554,566		
Total Liabilities and Shareholders' Equity	\$13,515,464			\$13,669,842		
Net Interest Margin		323,809	3.54 %		318,232	3.48 %
Less tax equivalent adjustment		9,569			14,726	
Net Interest Margin per Consolidated						
Statements of Income		\$314,240			\$303,506	
Provision for Loan Losses, LHFI						

The provision for loan losses, LHFI is determined by Management as the amount necessary to adjust the allowance for loan losses, LHFI to a level, which, in Management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses, LHFI reflects loan quality trends, including the levels of and trends related to nonaccrual LHFI, past due LHFI, potential problem LHFI, criticized LHFI, net charge-offs or

recoveries and growth in the LHFI portfolio among other factors. Accordingly, the amount of the provision reflects the necessary increases or decreases in the allowance for loan losses, LHFI related to adjustments for specific loans or loan pools as a result of growth in the portfolio and evaluation of current impairment analyses, actions taken with respect to risk ratings on loans and other adjustments resulting from changes in qualitative factors. The provision for loan losses, LHFI totaled \$8.7 million and \$15.8 million for the three and nine months ended September 30, 2018, respectively, an increase of \$5.0 million and \$6.4 million, respectively, when compared to the same time periods in 2017. The increase in the provision for loan losses, LHFI when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017 was primarily due to increases in the amount of provision expense related to new and existing impaired LHFI and net charge-offs partially offset by declines in provision expense related to changes in quantitative reserve factors and loan growth as well as the specific reserves recorded during the third quarter of 2017 related to Hurricane Harvey. See the section captioned “Allowance for Loan Losses, LHFI” for further analysis of the provision for loan losses, LHFI.

## Provision for Loan Losses, Acquired Loans

The provision for loan losses, acquired loans is recognized subsequent to acquisition to the extent it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when actual losses of unpaid principal incurred exceed previous loss expectations to date, or future cash flows previously expected to be collectible are no longer probable of collection. The provision for loan losses, acquired loans is reflected as a valuation allowance netted against the carrying value of the acquired loans accounted for under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." The negative provision for loan losses, acquired loans declined \$1.2 million, or 71.7%, and \$5.1 million, or 87.0%, respectively, when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017, principally due to changes in expectations based on the periodic re-estimations performed during the respective periods and acquired impaired loans that were transferred to LHFI during the second and third quarters of 2018.

The following table presents the provision for loan losses, acquired loans, by acquisition for the periods presented (\$ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
BancTrust	\$(467)	\$(1,400)	\$(1,169)	\$(4,386)
Bay Bank	—	(273 )	377	(1,350)
Heritage	—	20	61	(86 )
Reliance	—	—	(27 )	—
Total provision for loan losses, acquired loans	\$(467)	\$(1,653)	\$(758 )	\$(5,822)

## Noninterest Income

Noninterest income represented 30.6% and 31.0% of total revenue, before securities gains (losses), net, for the three and nine months ended September 30, 2018, respectively, compared to 30.0% and 31.7% for the three and nine months ended September 30, 2017, respectively. The following table provides the comparative components of noninterest income for the periods presented (\$ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Service charges on deposit accounts	\$11,075	\$11,223	\$(148 )	-1.3 %	\$32,579	\$32,810	\$(231 )	-0.7 %
Bank card and other fees	7,459	7,150	309	4.3 %	21,155	21,020	135	0.6 %
Mortgage banking, net	8,647	4,425	4,222	95.4 %	28,958	23,618	5,340	22.6 %
Insurance commissions	10,765	10,398	367	3.5 %	30,919	29,355	1,564	5.3 %
Wealth management	7,789	7,530	259	3.4 %	22,834	22,617	217	1.0 %



Edgar Filing: TRUSTMARK CORP - Form 10-Q

Other, net	1,358	3,740	(2,382)	-63.7	%	4,832	11,268	(6,436)	-57.1	%
Total noninterest income										
before securities gains										
(losses), net	47,093	44,466	2,627	5.9	%	141,277	140,688	589	0.4	%
Security gains (losses), net	—	14	(14)	-100.0	%	—	15	(15)	-100.0	%
Total noninterest income	\$47,093	\$44,480	\$2,613	5.9	%	\$141,277	\$140,703	\$574	0.4	%

Changes in various components of noninterest income are discussed in further detail below. For analysis of Trustmark's insurance commissions and wealth management income, please see the section captioned "Results of Segment Operations" of this report.

## Mortgage Banking, Net

The following table illustrates the components of mortgage banking, net included in noninterest income for the periods presented (\$ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Mortgage servicing income, net	\$5,428	\$5,295	\$133	2.5 %	\$16,518	\$16,192	\$326	2.0 %
Change in fair value-MSR from runoff	(3,181)	(2,892)	(289 )	-10.0 %	(9,022 )	(8,175 )	(847 )	-10.4 %
Gain on sales of loans, net	6,411	5,083	1,328	26.1 %	16,410	13,634	2,776	20.4 %
Other, net	(83 )	(450 )	367	81.6 %	1,577	951	626	65.8 %
Mortgage banking income before								
hedge ineffectiveness	8,575	7,036	1,539	21.9 %	25,483	22,602	2,881	12.7 %
Change in fair value-MSR from								
market changes	2,615	(2,393)	5,008	n/m	13,879	(2,218 )	16,097	n/m
Change in fair value of derivatives	(2,543)	(218 )	(2,325)	n/m	(10,404)	3,234	(13,638)	n/m
Net positive (negative) hedge								
ineffectiveness	72	(2,611)	2,683	n/m	3,475	1,016	2,459	n/m
Mortgage banking, net	\$8,647	\$4,425	\$4,222	95.4 %	\$28,958	\$23,618	\$5,340	22.6 %

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

The increase in mortgage banking, net for the three and nine months ended September 30, 2018 when compared to the same time periods in 2017 was principally due to increases in the net positive hedge ineffectiveness and gain on sales of loans, net. Mortgage loan production for the nine months ended September 30, 2018 was \$1.097 billion, an increase of \$79.7 million, or 7.8%, when compared to the same time period in 2017. Loans serviced for others totaled \$6.759 billion at September 30, 2018, compared with \$6.541 billion at September 30, 2017, an increase of \$218.0 million, or 3.3%.

Representing a significant component of mortgage banking income is gain on the sales of loans, net. The increase in the gain on sales of loans, net when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017, was primarily the result of higher profit margins in secondary marketing activities. Loan sales totaled \$304.9 million and \$820.6 million for the three and nine months ended September 30, 2018, respectively, a decrease of \$10.3 million, or 3.3%, and \$51.3 million, or 5.9%, respectively, when compared with the same time periods in 2017.

## Other Income, Net

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table illustrates the components of other income, net included in noninterest income for the periods presented (\$ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change	
Partnership amortization for tax									
credit purposes	\$(2,202)	\$(2,521)	\$319	12.7 %	\$(6,606)	\$(7,082)	\$476	6.7 %	
Increase in life insurance cash									
surrender value	1,805	1,813	(8)	-0.4 %	5,313	5,309	4	0.1 %	
Other miscellaneous income	1,755	4,448	(2,693)	-60.5 %	6,125	13,041	(6,916)	-53.0 %	
Total other, net	\$1,358	\$3,740	\$(2,382)	-63.7 %	\$4,832	\$11,268	\$(6,436)	-57.1 %	

The decrease in other income, net when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017 was primarily due to a decrease in other miscellaneous income principally due to \$2.7 million of nontaxable proceeds related to Trustmark's bank-owned life insurance received during the third quarter of 2017 and \$4.9 million of nontaxable proceeds related to life insurance acquired in a previous acquisition received during the second quarter of 2017. Excluding the nontaxable life insurance proceeds, other miscellaneous income increased \$43.7 thousand, or 2.6%, when the three months ended September 30, 2018 is compared to the same time period in 2017 and decreased \$519 thousand, or 9.6%, when the first nine months of 2018 is compared to the same time period in 2017.

## Noninterest Expense

The following table illustrates the comparative components of noninterest expense for the periods presented (\$ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Salaries and employee benefits	\$60,847	\$57,871	\$2,976	5.1 %	\$179,297	\$170,445	\$8,852	5.2 %
Defined benefit plan termination charge	—	—	—	—	—	17,644	(17,644)	-100.0 %
Services and fees	16,404	15,133	1,271	8.4 %	48,472	45,474	2,998	6.6 %
Net occupancy-premises	6,910	6,702	208	3.1 %	19,962	19,150	812	4.2 %
Equipment expense	6,200	6,297	(97)	-1.5 %	18,501	18,457	44	0.2 %
Other real estate expense:								
Write-downs	892	432	460	n/m	1,857	2,593	(736)	-28.4 %
Net (gain) loss on sale	(224)	(200)	(24)	-12.0 %	(1,226)	(1,722)	496	28.8 %
Carrying costs	500	632	(132)	-20.9 %	1,310	2,135	(825)	-38.6 %
Total other real estate expense, net	1,168	864	304	35.2 %	1,941	3,006	(1,065)	-35.4 %
FDIC assessment expense	1,999	2,816	(817)	-29.0 %	7,532	8,142	(610)	-7.5 %
Other expense	11,695	13,403	(1,708)	-12.7 %	35,783	44,900	(9,117)	-20.3 %
Total noninterest expense	\$105,223	\$103,086	\$2,137	2.1 %	\$311,488	\$327,218	\$(15,730)	-4.8 %

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

Changes in the various components of noninterest expense are discussed in further detail below. Management considers disciplined expense management a key area of focus in the support of improving shareholder value. Noninterest expense for the nine months ended September 30, 2017 included a one-time defined benefit pension plan termination charge of \$17.6 million and \$3.2 million of one-time expenses related to the completion of the Reliance merger (included in other expense). Excluding these non-routine transactions, noninterest expense for the nine months ended September 30, 2018 increased \$5.2 million, or 1.7%, when compared to the same time period in 2017.

## Salaries and Employee Benefits

The increase in salaries and employee benefits when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017 was principally due to increases in salaries and incentive compensation as a result of general merit increases and higher commission expense as a result of improvements in the insurance and mortgage origination lines of business. Trustmark adopted FASB Accounting Standard Update (ASU) 2017-07, "Compensation-Retirement Benefits (Topic 715)-Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," effective January 1, 2018. As a result of adopting ASU 2017-07, Trustmark was required to reclassify \$966 thousand and \$4.8 million of net periodic benefit cost, excluding the service cost

component, from salaries and employee benefits to other expense for the three and nine months ended September 30, 2017, respectively.

#### Services and Fees

The increase in services and fees when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017 was primarily the result of investments in new data processing software designed to improve efficiency and customer experience.

#### Other Real Estate Expense

The decrease in other real estate expense for the nine months ended September 30, 2018 when compared to the same time period in 2017 was principally due to declines in write-downs of other real estate and real estate tax and foreclosure expenses. Please see the section captioned "Other Real Estate" for additional information regarding other real estate expense.

## Other Expense

The following table illustrates the comparative components of other noninterest expense for the periods presented (\$ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Loan expense	\$2,824	\$3,013	\$(189)	-6.3 %	\$8,661	\$8,632	\$29	0.3 %
Amortization of intangibles	1,286	1,539	(253)	-16.4 %	3,969	4,647	(678)	-14.6 %
Defined benefit plans non-service cost								
reclass from salaries and employee								
benefits	885	966	(81)	-8.4 %	2,655	4,754	(2,099)	-44.2 %
Other miscellaneous expense	6,700	7,885	(1,185)	-15.0 %	20,498	26,867	(6,369)	-23.7 %
Total other expense	\$11,695	\$13,403	\$(1,708)	-12.7 %	\$35,783	\$44,900	\$(9,117)	-20.3 %

The decrease in other expense for the three months ended September 30, 2018 when compared to the same time period in 2017 was primarily due to declines in various miscellaneous expenses. The decrease in other expense for the first nine months of 2018 when compared to the first nine months of 2017 was principally due to the \$3.2 million of one-time expenses related to the completion of the Reliance merger (included in other miscellaneous expense) incurred during the second quarter of 2017 as well as declines in various miscellaneous expenses and a decrease in defined benefit plan expense principally due to the termination of the Trustmark Capital Accumulation Plan (the Plan).

## Results of Segment Operations

For a description of the methodologies used to measure financial performance and financial information by reportable segment, please see Note 19 – Segment Information included in Part I. Item 1. – Financial Statements of this report. The following discusses changes in the results of operations of each reportable segment for the nine months ended September 30, 2018 and 2017.

## General Banking

Net interest income for the General Banking Division increased \$10.7 million, or 3.5%, when the nine months ended September 30, 2018 is compared with the same time period in 2017. The increase in net interest income was primarily due to increases in interest and fees on LHFS and LHF1 and a decrease in other interest expense, partially offset by an increase in interest on deposits and declines in interest on securities and interest and fees on acquired loans. The provision for loan losses, net for the nine months ended September 30, 2018 totaled \$15.0 million compared to \$3.5 million for the same period in 2017, an increase of \$11.5 million. For more information on these net interest income items, please see the sections captioned “Financial Highlights” and “Results of Operations.”

Noninterest income for the General Banking Division decreased \$1.2 million, or 1.4%, during the first nine months of 2018 compared to the same time period in 2017, primarily due to \$2.7 million of nontaxable proceeds related to

Trustmark's bank-owned life insurance received during the third quarter of 2017 and \$4.9 million of nontaxable proceeds related to life insurance acquired in a previous acquisition received during the second quarter of 2017. Excluding these nontaxable proceeds, noninterest income for the General Banking Division increased \$5.2 million, or 6.3%, when the first nine months of 2018 is compared to the same time period in 2017. Noninterest income for the General Banking Division represented 21.8% of total revenue for this segment for the first nine months of 2018 as opposed to 22.7% for the same time period in 2017. Noninterest income for the General Banking Division includes service charges on deposit accounts; bank card and other fees; mortgage banking, net; other income, net and securities gains (losses), net. For more information on these noninterest income items, please see the analysis included in the section captioned "Noninterest Income."

Noninterest expense for the General Banking Division decreased \$17.0 million, or 6.0%, during the first nine months of 2018 compared with the same time period in 2017, principally due to a one-time defined benefit pension plan termination charge of \$17.6 million and \$3.2 million of one-time expenses related to the completion of the Reliance merger incurred during the second quarter of 2017. Excluding these non-routine expenses, noninterest expense for the General Banking Division for the first nine months of 2018 increased \$3.9 million, or 1.5%, when compared to the same time period in 2017, principally due to increases in salaries and employee benefits, primarily as a result of general merit increases and higher mortgage origination commission expense, and services and fees, primarily related to data processing software expenses, partially offset by declines in other expense, primarily due to declines in various miscellaneous expenses and a decrease in defined benefit plan expense principally due to the termination of the Plan, and other real estate expense, primarily due to declines in write-downs of other real estate and real estate tax and foreclosure expenses. For more information on these noninterest expense items, please see the analysis included in the section captioned "Noninterest Expense."

## Wealth Management

During the first nine months of 2018, net income for the Wealth Management Division increased \$885 thousand, or 49.9%, when compared to the same time period in 2017. Noninterest income, which includes income related to investment management, trust and brokerage services, increase \$255 thousand, or 1.1%, when the first nine months of 2018 is compared to the same time period in 2017, primarily due to increases in commissions and fees from investment services. Noninterest expense for the Wealth Management Division decreased \$365 thousand, or 1.8%, during the first nine months of 2018 compared to the same time period in 2017, principally due to a decrease in other miscellaneous expense partially offset by increases in data processing expense related to software and salaries and employee benefits resulting from improvements in retail brokerage activity.

At September 30, 2018 and 2017, Trustmark held assets under management and administration of \$10.920 billion and \$10.406 billion, respectively, and brokerage assets of \$1.867 billion and \$1.744 billion, respectively.

## Insurance

Net income for the Insurance Division during the first nine months of 2018 increased \$916 thousand, or 21.0%, compared to the same time period in 2017. Noninterest income for the Insurance Division, which is predominately composed of insurance commissions, increased \$1.6 million, or 5.3%, when the first nine months of 2018 is compared to the same time period in 2017. The increase in insurance commissions during the first nine months of 2018 when compared to the same time period in 2017 was primarily due to new business commission volume primarily in property and casualty coverage. Noninterest expense for the Insurance Division increased \$1.6 million, or 7.1%, when the first nine months of 2018 is compared to the same time period in 2017, primarily due to higher salaries expense resulting from modest general merit increases and higher commission expense due to improvements in business volumes.

## Income Taxes

For the three and nine months ended September 30, 2018, Trustmark's combined effective tax rate was 10.8% and 12.5%, compared to 20.1% and 20.8% for the same time periods in 2017. The decrease in the effective tax rate for the three and nine months ended September 30, 2018, compared to the same time periods in 2017, was primarily due to the enactment of the Tax Reform Act. Trustmark's effective tax rate continues to be less than the statutory rate primarily due to various tax-exempt income items and its utilization of income tax credit programs. Trustmark invests in partnerships that provide income tax credits on a Federal and/or State basis (i.e., new market tax credits, low income housing tax credits or historical tax credits). The income tax credits related to these partnerships are utilized as specifically allowed by income tax law and are recorded as a reduction in income tax expense.

## Financial Condition

Earning assets serve as the primary revenue streams for Trustmark and are comprised of securities, loans, federal funds sold and other earning assets. Average earning assets totaled \$12.236 billion, or 90.5% of total average assets, for the nine months ended September 30, 2018, compared to \$12.221 billion, or 89.4% of total average assets, for the nine months ended September 30, 2017, an increase of \$14.6 million, or 0.1%.

## Securities

The securities portfolio is utilized by Management to manage interest rate risk, generate interest income, provide liquidity and use as collateral for public deposits and wholesale funding. Risk and return can be adjusted by altering duration, composition and/or balance of the portfolio. The weighted-average life of the portfolio was 3.9 years at



September 30, 2018 compared to 3.8 years at December 31, 2017.

When compared with December 31, 2017, total investment securities decreased by \$486.6 million, or 14.8%, during the first nine months of 2018. This decrease resulted primarily from calls, maturities and pay-downs of the loans underlying GSE guaranteed securities as well as a net decline in the fair market value of the securities available for sale. Trustmark sold no securities during the first nine months of 2018, compared to \$27.7 million of securities sold during the first nine months of 2017, which generated a net gain of \$15 thousand.

75

---

During 2013, Trustmark reclassified approximately \$1.099 billion of securities available for sale to securities held to maturity to mitigate the potential adverse impact of a rising interest rate environment on the fair value of the available for sale securities and the related impact on tangible common equity. The resulting net unrealized holding loss is being 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. At September 30, 2018, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss, net of tax, (AOCL) in the accompanying consolidated balance sheets totaled \$16.6 million (\$12.4 million net of tax) compared to \$19.5 million (\$12.0 million net of tax) at December 31, 2017.

Available for sale securities are carried at their estimated fair value with unrealized gains or losses recognized, net of taxes, in AOCL, a separate component of shareholders' equity. At September 30, 2018, available for sale securities totaled \$1.865 billion, which represented 66.4% of the securities portfolio, compared to \$2.239 billion, or 67.9%, at December 31, 2017. At September 30, 2018, unrealized losses, net on available for sale securities totaled \$70.5 million compared to \$23.5 million at December 31, 2017. At September 30, 2018, available for sale securities consisted of obligations of states and political subdivisions, GSE guaranteed mortgage-related securities and direct obligations of government agencies and GSEs.

Held to maturity 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, 2018, held to maturity securities totaled \$943.9 million and represented 33.6% of the total securities portfolio, compared with \$1.056 billion, or 32.1%, at December 31, 2017.

Management continues to focus on asset quality as one of the strategic goals of the securities portfolio, which is evidenced by the investment of approximately 96% of the portfolio in GSE-backed obligations and other Aaa-rated securities as determined by Moody's Investors Services (Moody's). None of the securities owned by Trustmark are collateralized by assets which are considered sub-prime. Furthermore, outside of stock ownership in the FHLB of Dallas, FHLB of Atlanta and Federal Reserve Bank of Atlanta, Trustmark does not hold any other equity investment in a GSE.

As of September 30, 2018, Trustmark did not hold securities of any one issuer with a carrying value exceeding ten percent of total shareholders' equity, other than certain GSEs which are exempt from inclusion. Management continues to closely monitor the credit quality as well as the ratings of the debt and mortgage-backed securities issued by the GSEs and held in Trustmark's securities portfolio.

The following table presents Trustmark's securities portfolio by amortized cost and estimated fair value and by credit rating, as determined by Moody's, at September 30, 2018 (\$ in thousands):

	September 30, 2018					
	Amortized Cost			Estimated Fair Value		
	Amount	%		Amount	%	
<b>Securities Available for Sale</b>						
Aaa	\$1,877,974	97.1 %		\$1,807,368	96.9 %	
Aa1 to Aa3	42,275	2.2 %		42,402	2.3 %	
A1 to A3	520	—		519	—	
Baa1 to Baa3	208	—		202	—	
Not Rated (1)	14,125	0.7 %		14,142	0.8 %	
<b>Total securities available for sale</b>	<b>\$1,935,102</b>	<b>100.0%</b>		<b>\$1,864,633</b>	<b>100.0%</b>	
<b>Securities Held to Maturity</b>						

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Aaa	\$901,260	95.5 %	\$864,678	95.3 %
Aa1 to Aa3	33,657	3.6 %	33,638	3.7 %
Baa1 to Baa3	403	—	403	—
Not Rated (1)	8,563	0.9 %	8,598	1.0 %
Total securities held to maturity	\$943,883	100.0%	\$907,317	100.0%

(1)Not rated issues primarily consist of Mississippi municipal general obligations

The table above presenting the credit rating of Trustmark's securities is formatted to show the securities according to the credit rating category, and not by category of the underlying security. At September 30, 2018, approximately 96.9% of the available for sale securities, measured at the estimated fair value, and 95.5% of the held to maturity securities, measured at amortized cost, were rated Aaa.

## LHFS

At September 30, 2018, LHFS totaled \$182.7 million, consisting of \$134.9 million of residential real estate mortgage loans in the process of being sold to third parties and \$47.8 million of Government National Mortgage Association (GNMA) optional repurchase loans. At December 31, 2017, LHFS totaled \$180.5 million, consisting of \$132.3 million of residential real estate mortgage loans in the process of being sold to third parties and \$48.2 million of GNMA optional repurchase loans. Please refer to the nonperforming assets table that follows for information on GNMA loans eligible for repurchase which are past due 90 days or more.

Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first nine months of 2018 or 2017.

For additional information regarding the GNMA optional repurchase loans, please see the section captioned “Past Due Loans Held for Sale (LHFS)” included in Note 4 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI of Part I. Item 1. – Financial Statements of this report.

## LHFI

The table below shows the carrying value of the LHFI portfolio by loan type at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Loans secured by real estate:				
Construction, land development and other land	\$1,031,491	11.8 %	\$987,624	11.5 %
Secured by 1-4 family residential properties	1,801,029	20.6 %	1,675,311	19.6 %
Secured by nonfarm, nonresidential properties	2,294,289	26.2 %	2,193,823	25.6 %
Other real estate secured	453,687	5.2 %	517,956	6.1 %
Commercial and industrial loans	1,565,922	17.9 %	1,570,345	18.3 %
Consumer loans	182,709	2.1 %	171,918	2.0 %
State and other political subdivision loans	929,178	10.6 %	952,483	11.1 %
Other loans	488,725	5.6 %	500,507	5.8 %
LHFI	\$8,747,030	100.0 %	\$8,569,967	100.0 %

LHFI increased \$177.1 million, or 2.1%, compared to December 31, 2017. The increase in LHFI during the first nine months of 2018 was primarily due to net growth in loans secured by real estate in Trustmark’s Mississippi, Alabama and Florida market regions.

LHFI secured by real estate increased \$205.8 million, or 3.8%, during the first nine months of 2018 representing net growth in LHFI secured by 1-4 family residential properties, LHFI secured by nonfarm, nonresidential properties (NFNR LHFI) and construction, land development and other land loans partially offset by declines in LHFI secured by other real estate. LHFI secured by 1-4 family residential properties increased \$125.7 million, or 7.5%, during the first nine months of 2018, primarily due to growth in mortgage loans in the Mississippi, Alabama and Florida market regions. NFNR LHFI increased \$100.5 million, or 4.6%, during the first nine months of 2018, principally due to movement from the other construction loans category. Excluding other construction loan reclassifications, the NFNR LHFI portfolio declined \$108.0 million, or 4.9%, during the first nine months of 2018 primarily due to declines in owner occupied loans in the Mississippi, Tennessee and Texas market regions and non-owner occupied loans in the Texas, Mississippi and Florida market regions, partially offset by growth in non-owner occupied loans in the Alabama

and Tennessee market regions and owner occupied loans in the Florida and Alabama market regions. LHFIs secured by construction, land development and other land increased \$43.9 million, or 4.4%, during the first nine months of 2018 primarily due to new loans in the other construction, 1-4 family construction and development categories, partially offset by other construction loans moved to other loan categories upon the completion of the related construction project. During the first nine months of 2018, \$330.0 million loans were moved from other construction to other loan categories, including \$162.8 million to non-owner occupied loans, \$47.0 million to owner occupied loans, and \$120.2 million to multi-family residential loans. Excluding all reclassifications between loan categories, growth in other construction loans across all five market regions totaled \$334.6 million during the first nine months of 2018. LHFIs secured by other real estate declined \$64.3 million, or 12.4%, during the first nine months of 2018, primarily due to declines in LHFIs secured by multi-family residential properties in the Tennessee, Mississippi, Alabama and Texas market regions.

Trustmark's exposure to the energy sector is primarily included in the commercial and industrial loan portfolio in Trustmark's Mississippi and Texas market regions. At September 30, 2018 and December 31, 2017, energy-related LHFIs had outstanding balances of approximately \$183.8 million and \$226.5 million, respectively, which represented approximately 2.1% of Trustmark's total LHFIs portfolio at September 30, 2018 compared to approximately 2.6% of the total LHFIs portfolio at December 31, 2017. Trustmark has no loan exposure where the source of repayment, or the underlying security of such exposure, is tied to the realization of value from

energy reserves. Should oil prices fall below current levels for a prolonged period of time, there is potential for downgrades to occur. Management will continue to monitor this exposure.

The following table provides information regarding Trustmark's home equity loans and home equity lines of credit which are included in the LHFI secured by 1-4 family residential properties for the periods presented (\$ in thousands):

	September 30, 2018	December 31, 2017		
Home equity loans	\$ 50,994	\$ 47,032		
Home equity lines of credit	399,175	407,627		
Percentage of loans and lines for which Trustmark holds first lien	59.9	% 60.7	%	
Percentage of loans and lines for which Trustmark does not hold first lien	40.1	% 39.3	%	

Due to the increased risk associated with second liens, loan terms and underwriting guidelines differ from those used for products secured by first liens. Loan amounts and loan-to-value ratios are limited and are lower for second liens than first liens. Also, interest rates and maximum amortization periods are adjusted accordingly. In addition, regardless of lien position, the passing credit score for approval of all home equity lines of credit is higher than that of term loans. The allowance for loan losses, LHFI is also reflective of the increased risk related to second liens through application of a greater loss factor to this portion of the portfolio.

The following tables provide information regarding the interest rate terms of Trustmark's LHFI as of September 30, 2018 and December 31, 2017 (\$ in thousands). Trustmark's variable rate LHFI are based primarily on various prime and LIBOR interest rate bases.

	September 30, 2018		
	Fixed	Variable	Total
Loans secured by real estate:			
Construction, land development and other land	\$ 227,026	\$ 804,465	\$ 1,031,491
Secured by 1- 4 family residential properties	1,037,935	763,094	1,801,029
Secured by nonfarm, nonresidential properties	1,414,322	879,967	2,294,289
Other real estate secured	169,606	284,081	453,687
Commercial and industrial loans	535,925	1,029,997	1,565,922
Consumer loans	164,069	18,640	182,709
State and other political subdivision loans	850,908	78,270	929,178
Other loans	178,715	310,010	488,725
LHFI	\$ 4,578,506	\$ 4,168,524	\$ 8,747,030

	December 31, 2017		
	Fixed	Variable	Total
Loans secured by real estate:			
Construction, land development and other land	\$ 253,744	\$ 733,880	\$ 987,624
Secured by 1- 4 family residential properties	1,632,853	42,458	1,675,311
Secured by nonfarm, nonresidential properties	1,385,217	808,606	2,193,823

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Other real estate secured	153,851	364,105	517,956
Commercial and industrial loans	522,613	1,047,732	1,570,345
Consumer loans	151,685	20,233	171,918
State and other political subdivision loans	863,262	89,221	952,483
Other loans	238,315	262,192	500,507
LHFI	\$5,201,540	\$3,368,427	\$8,569,967

In the following tables, LHFI reported by region (along with related nonperforming assets and net charge-offs) are associated with location of origination except for loans secured by 1-4 family residential properties (representing traditional mortgages), credit cards and indirect consumer auto loans. These loans are included in the Mississippi Region because they are centrally analyzed and approved as part of a specific line of business located at Trustmark's headquarters in Jackson, Mississippi.

78

---

Edgar Filing: TRUSTMARK CORP - Form 10-Q

The following table presents the LHFI composition by region at September 30, 2018 and reflects a diversified mix of loans by region (\$ in thousands):

LHFI Composition by Region	September 30, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
<b>Loans secured by real estate:</b>						
Construction, land development and other land	\$1,031,491	\$335,338	\$79,432	\$333,614	\$19,974	\$263,133
Secured by 1-4 family residential properties	1,801,029	113,369	48,527	1,539,417	86,379	13,337
Secured by nonfarm, nonresidential properties	2,294,289	517,795	222,194	913,676	157,188	483,436
Other real estate secured	453,687	70,306	11,603	215,792	11,070	144,916
Commercial and industrial loans	1,565,922	197,278	17,065	783,217	378,433	189,929
Consumer loans	182,709	23,823	5,473	130,527	20,095	2,791
State and other political subdivision loans	929,178	87,807	42,144	586,996	28,355	183,876
Other loans	488,725	77,492	16,291	318,691	38,273	37,978
<b>LHFI</b>	<b>\$8,747,030</b>	<b>\$1,423,208</b>	<b>\$442,729</b>	<b>\$4,821,930</b>	<b>\$739,767</b>	<b>\$1,319,396</b>
<b>Construction, Land Development and Other Land Loans by Region</b>						
Lots	\$62,886	\$14,899	\$19,168	\$23,758	\$1,508	\$3,553
Development	58,520	7,621	7,663	29,243	680	13,313
Unimproved land	88,965	13,869	15,305	28,918	13,297	17,576
1-4 family construction	211,270	81,997	12,567	82,019	2,024	32,663
Other construction	609,850	216,952	24,729	169,676	2,465	196,028
Construction, land development and other land loans	\$1,031,491	\$335,338	\$79,432	\$333,614	\$19,974	\$263,133
<b>Loans Secured by Nonfarm, Nonresidential Properties by Region</b>						
<b>Non-owner occupied:</b>						
Retail	\$391,342	\$139,168	\$54,539	\$100,954	\$24,585	\$72,096
Office	142,098	70,872	21,027	—	7,988	42,211
Nursing homes/senior living	205,700	33,075	—	166,435	6,190	—
Hotel/motel	255,710	74,450	51,916	53,097	34,156	42,091
Mini-storage	121,764	12,665	6,198	36,264	615	66,022
Industrial	102,793	20,577	7,081	17,630	2,259	55,246
Health care	52,464	22,594	748	26,310	—	2,812
Convenience stores	31,322	2,766	116	17,028	764	10,648
Other	149,606	5,297	8,530	87,415	22,425	25,939
<b>Total non-owner occupied loans</b>	<b>1,452,799</b>	<b>381,464</b>	<b>150,155</b>	<b>505,133</b>	<b>98,982</b>	<b>317,065</b>
<b>Owner-occupied:</b>						
Office	164,111	29,926	28,039	60,073	6,588	39,485
Churches	92,797	19,036	6,656	45,949	16,262	4,894
Industrial warehouses	140,636	11,390	3,337	54,987	14,559	56,363
Health care	109,006	21,652	6,465	63,265	2,827	14,797
Convenience stores	115,278	14,613	12,956	63,379	1,229	23,101



Edgar Filing: TRUSTMARK CORP - Form 10-Q

Retail	86,833	24,035	7,746	33,231	3,686	18,135
Restaurants	35,360	2,712	1,529	27,224	1,832	2,063
Auto dealerships	31,240	8,480	149	13,600	9,011	—
Other	66,229	4,487	5,162	46,835	2,212	7,533
Total owner-occupied loans	841,490	136,331	72,039	408,543	58,206	166,371
Loans secured by nonfarm, nonresidential properties	\$2,294,289	\$517,795	\$222,194	\$913,676	\$157,188	\$483,436

Allowance for Loan Losses, LHFI

Trustmark's allowance for loan loss methodology is based on guidance provided in SEC Staff Accounting Bulletin (SAB) No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues," as well as other regulatory guidance. Trustmark's allowance has been developed using different factors to estimate losses based upon specific evaluation of identified individual LHFI considered impaired, estimated identified losses on various pools of LHFI and/or groups of risk rated LHFI with common risk

characteristics and other external and internal factors of estimated probable losses based on other facts and circumstances. The level of Trustmark's allowance reflects Management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio growth, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. For a complete description of Trustmark's allowance for loan loss methodology and the quantitative and qualitative factors included in the valuation allowance, please see Note 4 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI included in Part I. Item 1. – Financial Statements of this report.

At September 30, 2018, the allowance for loan losses, LHFI, was \$88.9 million, an increase of \$12.1 million, or 15.8%, when compared with December 31, 2017. The increase in the allowance for loan loss during the first nine months of 2018 was principally due to an increase in specific reserves for new and existing impaired LHFI. Total allowance coverage of nonperforming LHFI, excluding specifically reviewed impaired LHFI, increased to 339.79% at September 30, 2018, compared to 320.84% at December 31, 2017 principally due to the decrease in the nonperforming LHFI, excluding specifically reviewed impaired LHFI, partially offset by a decrease in the allowance for loan losses, LHFI, excluding specific reserves for impaired LHFI. Allocation of Trustmark's \$88.9 million allowance for loan losses, LHFI, represented 1.13% of commercial LHFI and 0.63% of consumer and home mortgage LHFI, resulting in an allowance to total LHFI of 1.02% as of September 30, 2018. This compares with an allowance to total LHFI of 0.90% at December 31, 2017, which was allocated to commercial LHFI at 0.95% and to consumer and mortgage LHFI at 0.68%.

The following tables present changes in the allowance for loan losses, LHFI by geographic market region for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$83,566	\$11,329	\$3,009	\$47,848	\$5,062	\$16,318
Transfers (1)	772	—	—	772	—	—
LHFI charged-off	(7,017)	(301)	(48)	(6,380)	(247)	(41)
Recoveries	2,880	103	634	1,703	343	97
Net (charge-offs) recoveries	(4,137)	(198)	586	(4,677)	96	56
Provision for loan losses, LHFI	8,673	593	(431)	(1,630)	8,100	2,041
Balance at end of period	\$88,874	\$11,724	\$3,164	\$42,313	\$13,258	\$18,415

	Three Months Ended September 30, 2017					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$76,184	\$9,206	\$3,056	\$45,312	\$6,102	\$12,508
LHFI charged-off	(2,752)	(400)	(102)	(1,954)	(281)	(15)
Recoveries	3,228	86	898	1,965	196	83
Net (charge-offs) recoveries	476	(314)	796	11	(85)	68
Provision for loan losses, LHFI	3,672	1,218	(744)	1,860	(72)	1,410
Balance at end of period	\$80,332	\$10,110	\$3,108	\$47,183	\$5,945	\$13,986

	Nine Months Ended September 30, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$76,733	\$10,473	\$2,819	\$44,388	\$5,427	\$13,626
Transfers (2)	1,554	—	782	772	—	—
LHFI charged-off	(12,980)	(722)	(136)	(11,233)	(803)	(86)

Edgar Filing: TRUSTMARK CORP - Form 10-Q

Recoveries	7,766	328	1,804	4,584	720	330
Net (charge-offs) recoveries	(5,214 )	(394 )	1,668	(6,649 )	(83 )	244
Provision for loan losses, LHFI	15,801	1,645	(2,105)	3,802	7,914	4,545
Balance at end of period	\$88,874	\$11,724	\$3,164	\$42,313	\$13,258	\$18,415

	Nine Months Ended September 30, 2017					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$71,265	\$7,188	\$2,900	\$43,010	\$5,801	\$12,366
LHFI charged-off	(9,072 )	(706 )	(288 )	(7,064 )	(908 )	(106 )
Recoveries	8,784	355	2,212	5,283	594	340
Net (charge-offs) recoveries	(288 )	(351 )	1,924	(1,781 )	(314 )	234
Provision for loan losses, LHFI	9,355	3,273	(1,716)	5,954	458	1,386
Balance at end of period	\$80,332	\$10,110	\$3,108	\$47,183	\$5,945	\$13,986

80

- (1) The allowance for loan losses balance related to the remaining loans acquired in the Heritage acquisition on April 15, 2011 and the Reliance merger on April 7, 2017, which were reclassified from acquired impaired loans to LHFI during the third quarter of 2018.
- (2) The allowance for loan losses balance related to the remaining loans acquired in the Bay Bank merger on March 16, 2012, which were reclassified from acquired impaired loans to LHFI during the second quarter of 2018, and the remaining loans acquired in the Heritage acquisition on April 15, 2011 and the Reliance merger on April 7, 2017, which were reclassified from acquired impaired loans to LHFI during the third quarter of 2018.

Charge-offs exceeded recoveries for the three and nine months ended September 30, 2018 resulting in net charge-offs of \$4.1 million and \$5.2 million, respectively, compared to net recoveries of \$476 thousand and net charge-offs of \$288 thousand for the same time periods in 2017. The increase in net charge-offs for the three and nine months ended September 30, 2018 compared to the same time periods in 2017 was primarily the result of two large substandard commercial credits in the Mississippi market region that were charged off during 2018.

The provision for loan losses, LHFI represents the change in the estimated loan losses determined utilizing Trustmark's allowance for loan loss methodology net of charge-offs and recoveries of LHFI charged against net income. The provision for loan losses, LHFI, for the three and nine months ended September 30, 2018 totaled 0.39% and 0.24% of average loans (LHFS and LHFI), respectively, compared with 0.17% and 0.15% of average loans (LHFS and LHFI), respectively, for the same time periods in 2017. The increase in the provision for loan losses, LHFI when the three and nine months ended September 30, 2018 are compared to the same time periods in 2017 was primarily due to increases in the amount of provision expense related to new and existing impaired LHFI and net charge-offs partially offset by declines in provision expense related to changes in quantitative reserve factors and loan growth as well as the specific reserves recorded during the third quarter of 2017 related to Hurricane Harvey.

#### Nonperforming Assets, Excluding Acquired Loans

The table below provides the components of nonperforming assets, excluding acquired loans, by geographic market region at September 30, 2018 and December 31, 2017 (\$ in thousands):

	September 30, 2018	December 31, 2017		
<b>Nonaccrual LHFI</b>				
Alabama	\$ 3,953	\$ 3,083		
Florida	1,180	3,034		
Mississippi	41,351	49,129		
Tennessee	13,195	4,436		
Texas	8,157	7,893		
<b>Total nonaccrual LHFI</b>	<b>67,836</b>	<b>67,575</b>		
<b>Other real estate</b>				
Alabama	7,526	11,714		
Florida	8,931	13,937		
Mississippi	18,191	14,260		
Tennessee	1,083	2,535		
Texas	744	782		
<b>Total other real estate</b>	<b>36,475</b>	<b>43,228</b>		
<b>Total nonperforming assets</b>	<b>\$ 104,311</b>	<b>\$ 110,803</b>		
<b>Nonperforming assets/total loans (LHFI and LHFS) and ORE</b>	<b>1.16</b>	<b>%</b>	<b>1.26</b>	<b>%</b>
<b>Loans past due 90 days or more</b>				

LHFI	\$ 726	\$ 2,171
LHFS - Guaranteed GNMA serviced loans (1)	\$ 34,115	\$ 35,544

(1) No obligation to repurchase

See the previous discussion of LHFS for more information on Trustmark's serviced GNMA loans eligible for repurchase and the impact of Trustmark's repurchases of delinquent mortgage loans under the GNMA optional repurchase program.

81

---

## Nonaccrual LHFI

At September 30, 2018, nonaccrual LHFI totaled \$67.8 million, or 0.76% of total LHFS and LHFI, reflecting an increase of \$261 thousand relative to December 31, 2017. The slight increase in nonaccrual LHFI during the first nine months of 2018 was principally due to one healthcare related commercial credit in the Mississippi market region and one shared national credit in the limited-service restaurant industry in the Tennessee market region moving to nonaccrual status, which were substantially offset by payments, foreclosure, and charge-offs on nonaccrual loans, primarily related to two nonaccrual commercial credits in the Mississippi market region and one nonaccrual commercial credit in the Florida market region. As of September 30, 2018, nonaccrual energy-related LHFI totaled \$13.1 million and represented 7.1% of Trustmark's total energy-related portfolio, compared to \$22.0 million, or 9.7% of Trustmark's total energy-related portfolio, as of December 31, 2017. For additional information regarding nonaccrual LHFI, see the section captioned "Nonaccrual and Past Due LHFI" included in Note 4 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI in Part I. Item 1. – Financial Statements of this report.

## Other Real Estate

Other real estate at September 30, 2018 decreased \$6.8 million, or 15.6%, when compared with December 31, 2017. The decrease in other real estate was primarily due to properties sold in Trustmark's Florida, Mississippi, Alabama and Tennessee market regions partially offset by new properties foreclosed in the Mississippi and Florida market regions.

As of September 30, 2018, Trustmark had no covered other real estate. The remaining loss-share agreement with the Federal Deposit Insurance Corporation (FDIC), which covers loans secured by 1-4 family residential properties, will expire in 2021. Should a loan covered by the remaining loss-share agreement be foreclosed, the related property will be classified as covered other real estate.

The following tables illustrate changes in other real estate by geographic market region for the periods presented (\$ in thousands):

	Three Months Ended September 30, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$39,667	\$ 8,290	\$9,789	\$ 19,358	\$ 1,486	\$ 744
Additions	3,284	161	1,967	774	382	—
Disposals	(5,584 )	(938 )	(2,825 )	(1,064 )	(757 )	—
Write-downs	(892 )	13	—	(877 )	(28 )	—
Balance at end of period	\$36,475	\$ 7,526	\$8,931	\$ 18,191	\$ 1,083	\$ 744

	Three Months Ended September 30, 2017					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$49,958	\$13,301	\$17,377	\$ 14,377	\$ 3,363	\$1,540
Additions	2,983	167	—	2,690	126	—
Disposals	(4,153 )	(626 )	(1,172 )	(1,583 )	(772 )	—
Write-downs	(432 )	(116 )	(105 )	(165 )	(46 )	—
Balance at end of period	\$48,356	\$12,726	\$16,100	\$ 15,319	\$ 2,671	\$1,540

Nine Months Ended September 30, 2018

Edgar Filing: TRUSTMARK CORP - Form 10-Q

	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$43,228	\$11,714	\$13,937	\$14,260	\$2,535	\$782
Additions	10,368	380	2,740	6,866	382	—
Disposals	(15,264)	(2,894)	(7,690)	(2,935)	(1,745)	—
Write-downs	(1,857)	(620)	(56)	(1,054)	(89)	(38)
Adjustments	—	(1,054)	—	1,054	—	—
Balance at end of period	\$36,475	\$7,526	\$8,931	\$18,191	\$1,083	\$744

Nine Months Ended September 30, 2017

	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$62,051	\$15,989	\$22,582	\$15,646	\$6,183	\$1,651
Additions (1)	7,481	838	344	4,784	732	783
Disposals	(18,583)	(3,160)	(5,702)	(4,496)	(4,331)	(894)
Write-downs	(2,593)	(941)	(1,124)	(615)	87	—
Balance at end of period	\$48,356	\$12,726	\$16,100	\$15,319	\$2,671	\$1,540

(1) Includes \$475 thousand of other real estate acquired in the Reliance merger on April 7, 2017.

Other real estate is revalued on an annual basis or more often if market conditions necessitate. Subsequent to foreclosure, losses on the periodic revaluation of the property are charged against the reserve for other real estate write-downs or net income in other real estate expense, if a reserve does not exist. Write-downs of other real estate decreased \$736 thousand, or 28.4%, when the first nine months of 2018 is compared to the same time period in 2017, primarily due to a \$1.1 million decrease in write-downs of other real estate properties in the Florida market region reflecting the increase in the amount of properties sold in this market region for the respective periods.

For additional information regarding other real estate, including covered other real estate, see Note 7 – Other Real Estate included in Part I. Item 1. – Financial Statements of this report.

#### Acquired Loans

Trustmark's loss-share agreement with the FDIC covering the acquired covered loans secured by 1-4 family residential properties will expire in 2021.

As of September 30, 2018 and December 31, 2017, acquired loans consisted of the following (\$ in thousands):

	September 30, 2018	December 31, 2017
Loans secured by real estate:		
Construction, land development and other land	\$ 6,657	\$ 23,586
Secured by 1-4 family residential properties	25,274	61,751
Secured by nonfarm, nonresidential properties	66,865	114,694
Other real estate secured	8,507	16,746
Commercial and industrial loans	16,610	31,506
Consumer loans	1,514	2,600
Other loans	7,188	10,634
Acquired loans	132,615	261,517
Less allowance for loan losses, acquired loans	1,714	4,079
Net acquired loans	\$ 130,901	\$ 257,438

During the first nine months of 2018, acquired loans decreased \$128.9 million, or 49.3%, compared to balances at December 31, 2017, primarily due to pay-downs and pay-offs of these acquired loans and acquired loans that were transferred to LHFI. Based on the most recent re-estimation of expected cash flows, Trustmark anticipates that acquired loan balances, excluding any settlement of debt, will decline approximately \$20.0 million to \$30.0 million during the fourth quarter of 2018. Trustmark also expects the yield on the acquired loans, excluding any recoveries, to be approximately 6.5% to 7.5% for the fourth quarter of 2018. As the balances in the acquired loan portfolio continue to run-off, Trustmark expects that the income benefit provided by this portfolio will also decline.

For additional information regarding acquired loans, including changes in the net carrying value, see Note 5 – Acquired Loans included in Part I. Item 1. – Financial Statements of this report.

#### Deposits

Trustmark's deposits are its primary source of funding and consist of core deposits from the communities Trustmark serves. Deposits include interest-bearing and noninterest-bearing demand accounts, savings, money market, certificates of deposit and individual retirement accounts. Total deposits were \$10.957 billion at September 30, 2018 compared to \$10.578 billion at December 31, 2017, an increase of \$379.4 million, or 3.6%. During the first nine



months of 2018, noninterest-bearing deposits decreased \$191.5 million, or 6.4%, as a result of declines in all categories of noninterest-bearing deposit accounts, while interest-bearing deposits increased \$570.9 million, or 7.5%, primarily due to growth in public and commercial interest checking accounts, commercial and consumer money market deposit accounts and consumer and public certificates of deposits, reflecting increases in interest rates in general.

83

---

### Short-term Borrowings

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposit growth. Short-term borrowings consist primarily of federal funds purchased, securities sold under repurchase agreements, short-term FHLB advances and GNMA optional repurchase loans. Short-term borrowings totaled \$676.9 million at September 30, 2018, a decrease of \$764.0 million, or 53.0%, when compared with \$1.441 billion at December 31, 2017, primarily due to decrease in the outstanding balance of short-term FHLB advances, as maturing short-term advances with the FHLB of Dallas were not replaced as a result of increases in interest rates and changes in Trustmark's funding needs which resulted from increased liquidity due to growth in deposits and securities run-off. Other short-term borrowings decreased \$781.0 million, or 80.4%, during the first nine months of 2018, primarily due to the maturity of \$400.0 million in short-term FHLB advances and prepayment of \$375.0 million short-term advance with the FHLB of Dallas. Federal funds purchased and securities sold under repurchase agreements totaled \$486.9 million at September 30, 2018 compared to \$469.8 million at December 31, 2017, an increase of \$17.0 million, or 3.6%. Of these amounts \$95.9 million and \$139.8 million, respectively, represented customer related transactions, such as commercial sweep repurchase balances. Excluding customer related transactions, federal funds purchased totaled \$391.0 million at September 30, 2018, an increase of \$61.0 million, or 18.5%, when compared with \$330.0 million at December 31, 2017.

### Legal Environment

Information required in this section is set forth under the heading "Legal Proceedings" of Note 13 – Contingencies included in Part I. Item 1. – Financial Statements of this report.

### Off-Balance Sheet Arrangements

Information required in this section is set forth under the heading "Lending Related" of Note 13 – Contingencies included in Part I. Item 1. – Financial Statements of this report.

### Contractual Obligations

Payments due from Trustmark under specified long-term and certain other binding contractual obligations were scheduled in our Annual Report on Form 10-K for the year ended December 31, 2017. The most significant obligations, other than obligations under deposit contracts and short-term borrowings, were for operating leases for banking facilities. There have been no material changes in Trustmark's contractual obligations since year-end.

### Capital Resources

At September 30, 2018, Trustmark's total shareholders' equity was \$1.600 billion, an increase of \$27.9 million, or 1.8%, when compared to December 31, 2017. During the first nine months of 2018, shareholders' equity increased primarily as a result of net income of \$112.9 million, partially offset by common stock dividends of \$47.0 million and a decrease in the fair market value of securities available for sale of \$35.2 million, net of tax. Trustmark utilizes a capital model in order to provide Management with a monthly tool for analyzing changes in its strategic capital ratios. This allows Management to hold sufficient capital to provide for growth opportunities and protect the balance sheet against sudden adverse market conditions, while maintaining an attractive return on equity to shareholders.

### Regulatory Capital

Trustmark and TNB are subject to minimum risk-based capital and leverage capital requirements, as described in the section captioned "Capital Adequacy" included in Part I. Item 1. – Business of Trustmark's 2017 Annual Report on Form

10-K, which are administered by the federal bank regulatory agencies. These capital requirements, as defined by federal regulations, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Trustmark's and TNB's minimum risk-based capital requirements include the phased in capital conservation buffer of 1.875% at September 30, 2018 and 1.250% at December 31, 2017. AOCL is not included in computing regulatory capital. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB and limit Trustmark's and TNB's ability to pay dividends. As of September 30, 2018, Trustmark and TNB exceeded all applicable minimum capital standards. In addition, Trustmark and TNB met applicable regulatory guidelines to be considered well-capitalized at September 30, 2018. To be categorized in this manner, Trustmark and TNB maintained minimum common equity Tier 1 risk-based capital, Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios, and were not subject to any written agreement, order or capital directive, or prompt corrective action directive issued by their primary federal regulators to meet and maintain a specific capital level for any capital measures. There are no significant conditions or events that have occurred since September 30, 2018, which Management believes have affected Trustmark's or TNB's present classification.

In 2006, Trustmark enhanced its capital structure with the issuance of trust preferred securities. For regulatory capital purposes, the trust preferred securities currently qualify as Tier 1 capital. Trustmark intends to continue to utilize \$60.0 million in trust preferred securities issued by Trustmark Preferred Capital Trust I (the Trust) as Tier 1 capital up to the regulatory limit, as permitted by the grandfather provision in the Dodd-Frank Act and the Basel III Final Rule.

Refer to the section captioned “Regulatory Capital” included in Note 16 – Shareholders’ Equity in Part I. Item 1. – Financial Statements of this report for an illustration of Trustmark’s and TNB’s actual regulatory capital amounts and ratios under regulatory capital standards in effect at September 30, 2018 and December 31, 2017.

#### Dividends on Common Stock

Dividends per common share for the nine months ended September 30, 2018 and 2017 were \$0.69. Trustmark’s indicated dividend for 2018 is \$0.92 per common share, which is the same as dividends per common share in 2017.

#### Liquidity

Liquidity is the ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demand for loans and deposit withdrawals, funding operating costs and other corporate purposes. Consistent cash flows from operations and adequate capital provide internally generated liquidity. Furthermore, Management maintains funding capacity from a variety of external sources to meet daily funding needs, such as those required to meet deposit withdrawals, loan disbursements and security settlements. Liquidity strategy also includes the use of wholesale funding sources to provide for the seasonal fluctuations of deposit and loan demand and the cyclical fluctuations of the economy that impact the availability of funds. Management keeps excess funding capacity available to meet potential demands associated with adverse circumstances.

The asset side of the balance sheet provides liquidity primarily through maturities and cash flows from loans and securities as well as the ability to sell certain loans and securities while the liability portion of the balance sheet provides liquidity primarily through noninterest and interest-bearing deposits. Trustmark utilizes federal funds purchased, FHLB advances, securities sold under repurchase agreements as well as the Federal Reserve Discount Window (Discount Window) and, on a limited basis as discussed below, brokered deposits to provide additional liquidity. Access to these additional sources represents Trustmark’s incremental borrowing capacity.

Deposit accounts represent Trustmark’s largest funding source. Average deposits totaled to \$10.959 billion for the first nine months of 2018 and represented approximately 81.1% of average liabilities and shareholders’ equity, compared to average deposits of \$10.147 billion, which represented 74.2% of average liabilities and shareholders’ equity for the first nine months of 2017.

Trustmark utilizes a limited amount of brokered deposits to supplement other wholesale funding sources. At September 30, 2018, brokered sweep Money Market Deposit Account (MMDA) deposits totaled \$15.2 million compared to \$38.6 million at December 31, 2017. At both September 30, 2018 and December 31, 2017, Trustmark had no outstanding brokered CDs.

At September 30, 2018, Trustmark had \$391.0 million in upstream federal funds purchased, compared to \$330.0 million at December 31, 2017. Trustmark maintains adequate federal funds lines to provide sufficient short-term liquidity.

Trustmark maintains a relationship with the FHLB of Dallas, which provided \$125.0 million of outstanding short-term advances and no outstanding long-term advances at September 30, 2018, compared to \$900.0 million of outstanding

short-term advances and no outstanding long-term advances at December 31, 2017. Under the existing borrowing agreement, Trustmark had sufficient qualifying collateral to increase FHLB advances with the FHLB of Dallas by \$2.614 billion at September 30, 2018.

In addition, at September 30, 2018, Trustmark had \$896 thousand in long-term FHLB advances outstanding with the FHLB of Atlanta, which were acquired in the BancTrust merger, compared to \$958 thousand at December 31, 2017. Trustmark has non-member status and thus no additional borrowing capacity with the FHLB of Atlanta.

Additionally, Trustmark has the ability to leverage its unencumbered investment securities as collateral. At September 30, 2018, Trustmark had approximately \$613.3 million available in unencumbered agency securities compared to \$1.299 billion at December 31, 2017. The decrease was primarily due to Management's decision to suspend reinvestment of security cash flows during the fourth quarter of 2017 as well as increased collateral requirements due to the increase in public deposits.

Another borrowing source is the Discount Window. At September 30, 2018, Trustmark had approximately \$1.070 billion available in collateral capacity at the Discount Window primarily from pledges of commercial and industrial LHFI, compared with \$1.042 billion at December 31, 2017.

During 2006, Trustmark completed a private placement of \$60.0 million of trust preferred securities through a newly formed Delaware trust affiliate, the Trust. The trust preferred securities mature September 30, 2036 and are redeemable at Trustmark's option. The proceeds from the sale of the trust preferred securities were used by the Trust to purchase \$61.9 million in aggregate principal amount of Trustmark's junior subordinated debentures.

The Board of Directors of Trustmark currently has the authority to issue up to 20.0 million preferred shares with no par value. The ability to issue preferred shares in the future will provide Trustmark with additional financial and management flexibility for general corporate and acquisition purposes. At September 30, 2018, Trustmark had no shares of preferred stock issued and outstanding.

Liquidity position and strategy are reviewed regularly by Management and continuously adjusted in relationship to Trustmark's overall strategy. Management believes that Trustmark has sufficient liquidity and capital resources to meet presently known cash flow requirements arising from ongoing business transactions.

## Asset/Liability Management

### Overview

Market risk reflects the potential risk of loss arising from adverse changes in interest rates and market prices. Trustmark has risk management policies to monitor and limit exposure to market risk. Trustmark's primary market risk is interest rate risk created by core banking activities. Interest rate risk is the potential variability of the income generated by Trustmark's financial products or services, which results from changes in various market interest rates. Market rate changes may take the form of absolute shifts, variances in the relationships between different rates and changes in the shape or slope of the interest rate term structure.

Management continually develops and applies cost-effective strategies to manage these risks. Management's 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 of Trustmark. 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.

### Derivatives

Trustmark uses financial derivatives for management of interest rate risk. Management's Asset/Liability Committee, in its oversight role for the management of interest rate risk, approves the use of derivatives in balance sheet hedging strategies. The most common derivatives employed by Trustmark are interest rate lock commitments, forward contracts (both futures contracts and options on futures contracts), interest rate swaps, interest rate caps and interest rate floors. As a general matter, the values of these instruments are designed to be inversely related to the values of the assets that they hedge (i.e., if the value of the hedged asset falls, the value of the related hedge rises). In addition, Trustmark has entered into derivatives contracts as counterparty to one or more customers in connection with loans extended to those customers. These transactions are designed to hedge interest rate, currency or other exposures of the customers and are not entered into by Trustmark for speculative purposes. Increased federal regulation of the derivatives markets may increase the cost to Trustmark to administer derivatives programs.

On April 4, 2013, Trustmark entered into a forward interest rate swap contract on junior subordinated debentures with a total notional amount of \$60.0 million. The interest rate swap contract was designated as a derivative instrument in a cash flow hedge under FASB ASC Topic 815, with the objective of protecting the quarterly interest payments on Trustmark's \$60.0 million of junior subordinated debentures issued to the Trust throughout the five-year period beginning December 31, 2014 and ending December 31, 2019 from the risk of variability of those payments resulting

from changes in the three-month LIBOR interest rate. Under the swap, which became effective on December 31, 2014, Trustmark pays a fixed interest rate of 1.66% per annum and receives a variable interest rate based on three-month LIBOR on a total notional amount of \$60.0 million, with quarterly net settlements.

No ineffectiveness related to the interest rate swap designated as a cash flow hedge was recognized in the consolidated statements of income during the nine months ended September 30, 2018 and 2017. The accumulated net after-tax gain related to the effective cash flow hedge included in AOCL totaled \$639 thousand September 30, 2018 compared to a net after-tax gain of \$278 thousand at December 31, 2017. Amounts reported in AOCL related to this derivative are reclassified to other interest expense as interest payments are made on Trustmark's variable rate junior subordinated debentures. During the next twelve months, Trustmark estimates that \$644 thousand will be reclassified as a decrease to other interest expense.

As part of Trustmark's risk management strategy in the mortgage banking business, various derivative instruments such as interest rate lock commitments and forward sales contracts are utilized. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified period of time. 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. The gross notional amount of Trustmark's off-balance sheet obligations under these derivative instruments totaled \$302.3 million at September 30, 2018, with a positive valuation adjustment of \$1.8 million, compared to \$265.0 million, with a positive valuation adjustment of \$663 thousand at December 31, 2017.

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in fair value of the mortgage servicing rights (MSR) attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting under GAAP. The total notional amount of these derivative instruments were \$252.0 million at September 30, 2018 compared to \$349.0 million at December 31, 2017. These exchange-traded derivative instruments are accounted for at fair value with changes in the fair value recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of the MSR. The MSR fair value represents the present value of future cash flows, which among other things includes decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the change in value of hedge instruments to the change in the fair value of the MSR asset attributable to changes in interest rates and other market driven changes in valuation inputs and assumptions. The impact of this strategy resulted in a net positive ineffectiveness of \$72 thousand and a net negative ineffectiveness of \$2.6 million for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, the impact was a net positive ineffectiveness of \$3.5 million and \$1.0 million, respectively.

Trustmark offers certain interest rate derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk under loans they have entered into with TNB. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivatives transactions executed as part of this program are not designated as qualifying hedging relationships under GAAP and are, therefore, carried on Trustmark's financial statements at fair value with the change in fair value recorded in noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset. As of September 30, 2018, Trustmark had interest rate swaps with an aggregate notional amount of \$410.2 million related to this program, compared to \$351.9 million as of December 31, 2017.

Trustmark has agreements with its financial institution counterparties that contain provisions where if Trustmark defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Trustmark could also be deemed to be in default on its derivatives obligations.

As of September 30, 2018, Trustmark had no termination value of interest rate swaps in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements compared to \$80 thousand at December 31, 2017. As of September 30, 2018, Trustmark had no posted collateral against its obligations because of negotiated thresholds and minimum transfer amounts under these agreements. If Trustmark had breached any of these triggering provisions at September 30, 2018, it could have been required to settle its obligations under the agreements at the termination value (which is expected to approximate fair market value).

Credit risk participation agreements arise when Trustmark contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. At both September 30, 2018 and December 31, 2017, Trustmark had entered into two risk participation agreements as a beneficiary with an aggregate notional amount of \$13.2 million and \$13.7 million, respectively. At September 30, 2018, Trustmark had entered into seven risk participation agreements as a guarantor with an aggregate notional amount of \$40.3 million, compared to six risk participation agreements as a guarantor with an aggregate notional amount of \$37.1 million at December 31,



2017. The aggregate fair values of these risk participation agreements were immaterial at September 30, 2018 and December 31, 2017.

Trustmark's participation in the derivatives markets is subject to increased federal regulation of these markets. Trustmark believes that it may continue to use financial derivatives to manage interest rate risk and also to offer derivatives products to certain qualified commercial lending clients in compliance with the Volcker Rule. However, the increased federal regulation of the derivatives markets has increased the cost to Trustmark of administering its derivatives programs. Some of these costs (particularly compliance costs related to the Volcker Rule and other federal regulations) are expected to recur in the future.

#### 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.

Financial simulation models are the primary tools used by Management's Asset/Liability Committee to measure interest rate exposure. Using a wide range of scenarios, Management is provided with extensive information on the potential impact on net interest income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Trustmark's balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve and the changing composition of Trustmark's balance sheet, resulting from both strategic plans and customer behavior. In addition, the model incorporates Management's assumptions and expectations regarding such factors as loan and deposit growth, pricing, prepayment speeds and spreads between interest rates.

Based on the results of the simulation models using static balances, the table below summarizes the effect various one-year interest rate shift scenarios would have on net interest income compared to a base case, flat scenario at September 30, 2018 and 2017. At September 30, 2018 and 2017, the impact of a 200 basis point drop scenario was not calculated due to the low interest rate environment.

	Estimated % Change	
	in Net Interest Income	
Change in Interest Rates	2018	2017
+200 basis points	-0.8 %	-2.4 %
+100 basis points	-0.4 %	-1.4 %
-100 basis points	-1.7 %	-5.3 %

As shown in the table above, the interest rate shocks for the first nine months of 2018 illustrate little change in net interest income in rising rate scenarios while displaying modest exposure to a falling rate environment. The exposure to falling rates is primarily due to a downward repricing of various earning assets with minimal contribution from liabilities given the already low cost of deposits in the base scenario. 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 2018 or additional actions Trustmark could undertake in response to changes in interest rates. Management will continue to prudently manage the balance sheet in an effort to control interest rate risk and maintain profitability over the long term.

Another component of interest rate risk management is measuring the economic value-at-risk for a given change in market interest rates. The economic value-at-risk may indicate risks associated with longer-term balance sheet items that may not affect net interest income at risk over shorter time periods. Trustmark uses computer-modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The economic value of equity (EVE), also known as net portfolio value, is defined as the difference between the present value of asset cash flows and the present value of liability cash flows. The resulting change in EVE in different market rate environments, from the base case scenario, is the amount of EVE at risk from those rate environments. The following table summarizes the effect that various interest rate shifts would have on net portfolio value at September 30, 2018 and 2017. At September 30, 2018

and 2017, the impact of a 200 basis point drop scenario was not calculated due to the historically low interest rate environment.

Change in Interest Rates	Estimated % Change	
	in Net Portfolio Value	
	2018	2017
+200 basis points	0.7 %	4.5 %
+100 basis points	0.7 %	3.4 %
-100 basis points	-4.2 %	-10.2 %

Trustmark determines the fair value of the MSR using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income and other ancillary income such as late fees. Management reviews all significant assumptions quarterly. Mortgage loan prepayment speeds, a key assumption in the model, is the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate used to determine the present value of estimated future net servicing income, another key assumption in the model, is an estimate of the required rate of return investors in the market would require for an asset with similar risk. Both assumptions can, and generally will, change as market conditions and interest rates change.

By way of example, an increase in either the prepayment speed or discount rate assumption will result in a decrease in the fair value of the MSR, while a decrease in either assumption will result in an increase in the fair value of the MSR. In recent years, there have been significant market-driven fluctuations in loan prepayment speeds and discount rates. These fluctuations can be rapid and may continue to be significant. Therefore, estimating prepayment speed and/or discount rates within ranges that market participants would use in determining the fair value of the MSR requires significant management judgment.

At September 30, 2018, the MSR fair value was \$101.4 million, compared to \$81.5 million at September 30, 2017. The impact on the MSR fair value of a 10% adverse change in prepayment speed or a 100 basis point increase in discount rate at September 30, 2018, would be a decline in fair value of approximately \$3.0 million and \$4.2 million, respectively, compared to a decline in fair value of approximately \$3.1 million and \$3.0 million, respectively, at September 30, 2017. Changes of equal magnitude in the opposite direction would produce similar increases in fair value in the respective amounts.

#### Critical Accounting Policies

For an overview of Trustmark's critical accounting policies, see the section captioned "Critical Accounting Policies" included in Part II. Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations, of Trustmark's 2017 Annual Report on Form 10-K. There have been no significant changes in Trustmark's critical accounting policies during the first nine months of 2018.

For additional information regarding Trustmark's basis of presentation and accounting policies, see Note 1 – Business, Basis of Financial Statement Presentation and Principles of Consolidation included in Part I. Item 1. – Financial Statements of this report.

#### Accounting Policies Recently Adopted and Pending Accounting Pronouncements

For a complete list of recently adopted and pending accounting policies and the impact on Trustmark, see Note 20 – Accounting Policies Recently Adopted and Pending Accounting Pronouncements included in Part I. Item 1. – Financial Statements of this report.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is included in the discussion of Market/Interest Rate Risk Management found in Management's Discussion and Analysis.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by Trustmark's Management, with the participation of its Chief Executive Officer and Treasurer and Principal Financial Officer (Principal Financial Officer), of the effectiveness of Trustmark's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and the Principal Financial Officer concluded that Trustmark's disclosure controls and procedures were effective as of the end of the period covered by this report.

##### Changes in Internal Control over Financial Reporting

There has been no change in Trustmark's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, Trustmark's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Trustmark's wholly-owned subsidiary, TNB, has been named as a defendant in three lawsuits related to the collapse of the Stanford Financial Group. The first is a purported class action complaint that was filed on August 23, 2009 in the District Court of Harris County, Texas, by Peggy Roif Rotstain, Guthrie Abbott, Catherine Burnell, Steven Queyrouze, Jaime Alexis Arroyo Bornstein and Juan C. Olano (collectively, Class Plaintiffs), on behalf of themselves and all others similarly situated, naming TNB and four other financial institutions unaffiliated with Trustmark as defendants. The complaint seeks to recover (i) alleged fraudulent transfers from each of the defendants in the amount of fees and other monies received by each defendant from entities controlled by R. Allen Stanford (collectively, the Stanford Financial Group) and (ii) damages allegedly attributable to alleged conspiracies by one or more of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud on the asserted grounds that defendants

knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme. Plaintiffs have demanded a jury trial. Plaintiffs did not quantify damages.

In November 2009, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. In May 2010, all defendants (including TNB) filed motions to dismiss the lawsuit. In August 2010, the court authorized and approved the formation of an Official Stanford Investors Committee (OSIC) to represent the interests of Stanford investors and, under certain circumstances, to file legal actions for the benefit of Stanford investors. In December 2011, the OSIC filed a motion to intervene in this action. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues. In December 2012, the court granted the OSIC's motion to intervene, and the OSIC filed an Intervenor Complaint against one of the other defendant financial institutions. In February 2013, the OSIC filed a second Intervenor Complaint that asserts claims against TNB and the remaining defendant financial institutions. The OSIC seeks to recover: (i) alleged fraudulent transfers in the amount of the fees each of the defendants allegedly received from Stanford Financial Group, the profits each of the defendants allegedly made from Stanford Financial Group deposits, and other monies each of the defendants allegedly received from Stanford Financial Group; (ii) damages attributable to alleged conspiracies by each of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud and conversion on the asserted grounds that the defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme; and (iii) punitive damages. The OSIC did not quantify damages.

In July 2013, all defendants (including TNB) filed motions to dismiss the OSIC's claims. In March 2015, the court entered an order authorizing the parties to conduct discovery regarding class certification, staying all other discovery and setting a deadline for the parties to complete briefing on class certification issues. In April 2015, the court granted in part and denied in part the defendants' motions to dismiss the Class Plaintiffs' claims and the OSIC's claims. The court dismissed all of the Class Plaintiffs' fraudulent transfer claims and dismissed certain of the OSIC's claims. The court denied the motions by TNB and the other financial institution defendants to dismiss the OSIC's constructive fraudulent transfer claims.

On June 23, 2015, the court allowed the Class Plaintiffs to file a Second Amended Class Action Complaint (SAC), which asserted new claims against TNB and certain of the other defendants for (i) aiding, abetting and participating in a fraudulent scheme, (ii) aiding, abetting and participating in violations of the Texas Securities Act, (iii) aiding, abetting and participating in breaches of fiduciary duty, (iv) aiding, abetting and participating in conversion and (v) conspiracy. On July 14, 2015, the defendants (including TNB) filed motions to dismiss the SAC and to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer claims against TNB and the other financial institutions that are defendants in the action. On July 27, 2016, the court denied the motion by TNB and the other financial institution defendants to dismiss the SAC and also denied the motion by TNB and the other financial institution defendants to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer claims. On August 24, 2016, TNB filed its answer to the SAC. On October 20, 2017, the OSIC filed a motion seeking an order lifting the discovery stay and establishing a trial schedule. On November 7, 2017, the court denied the OSIC's motion seeking class certification and designation of class representatives and counsel, finding that common issues of fact did not predominate. The court granted the OSIC's motion to lift the discovery stay that it had previously ordered.

The second Stanford-related lawsuit was filed on December 14, 2009 in the District Court of Ascension Parish, Louisiana, individually by Harold Jackson, Paul Blaine, Carolyn Bass Smith, Christine Nichols, and Ronald and Ramona Hebert naming TNB (misnamed as Trust National Bank) and other individuals and entities not affiliated with Trustmark as defendants. The complaint seeks to recover the money lost by these individual plaintiffs as a result of the collapse of the Stanford Financial Group (in addition to other damages) under various theories and causes of

action, including negligence, breach of contract, breach of fiduciary duty, negligent misrepresentation, detrimental reliance, conspiracy, and violation of Louisiana's uniform fiduciary, securities, and racketeering laws. The complaint does not quantify the amount of money the plaintiffs seek to recover. In January 2010, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. On March 29, 2010, the court stayed the case. TNB filed a motion to lift the stay, which was denied on February 28, 2012. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues.

On April 11, 2016, Trustmark learned that a third Stanford-related lawsuit had been filed on that date in the Superior Court of Justice in Ontario, Canada, by The Toronto-Dominion Bank ("TD Bank"), naming TNB and three other financial institutions not affiliated with Trustmark as defendants. The complaint seeks a declaration specifying the degree to which each of TNB and the other defendants are liable in respect of any loss and damage for which TD Bank is found to be liable in a litigation commenced against TD Bank brought by the Joint Liquidators of Stanford International Bank Limited in the Superior Court of Justice, Commercial List in Ontario, Canada (the "Joint Liquidators' Action"), as well as contribution and indemnity in respect of any judgment, interest and costs TD Bank is ordered to pay in the Joint Liquidators' Action. To date, TNB has not been served in connection with this action.

TNB's relationship with the Stanford Financial Group began as a result of Trustmark's acquisition of a Houston-based bank in August 2006, and consisted of correspondent banking and other traditional banking services in the ordinary course of business. All Stanford-related lawsuits are in pre-trial stages.

Trustmark and its subsidiaries are also parties to other 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.

All pending legal proceedings described above are being vigorously contested. In accordance FASB Accounting Standards Codification (ASC) Topic 450-20, "Loss Contingencies," Trustmark will establish an accrued liability for litigation matters when those matters present loss contingencies that are both probable and reasonably estimable. At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that a loss in any such proceeding is not probable and reasonably estimable. All matters will continue to be monitored for further developments that would make such loss contingency both probable and reasonably estimable. In view of the inherent difficulty of predicting the outcome of legal proceedings, Trustmark cannot predict the eventual outcomes of the currently pending matters or the timing of their ultimate resolution. Management currently believes, however, based upon the advice of legal counsel and Management's evaluation and after taking into account its current insurance coverage, that the legal proceedings currently pending should not have a material adverse effect on Trustmark's consolidated financial condition.

#### ITEM 1A. RISK FACTORS

There has been no material change in the risk factors previously disclosed in Trustmark's Annual Report on Form 10-K for its fiscal year ended December 31, 2017.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 11, 2016, the Board of Directors of Trustmark authorized a stock repurchase program under which up to \$100.0 million of Trustmark's common shares may be acquired through March 31, 2019. The following table provides information with respect to purchases by Trustmark or made on behalf of Trustmark of its common stock during the three months ended September 30, 2018 (\$ in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan at the End of the Period
July 1, 2018 to July 31, 2018	—	\$ —	—	\$ 91,378
August 1, 2018 to August 31, 2018	—	—	—	91,378
September 1, 2018 to September 30, 2018	—	—	—	91,378
Total	—	—	—	—

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable



ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

91

---

EXHIBIT INDEX

- 31-a Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31-b Certification by Principal 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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32-b Certification by Principal Financial Officer pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 XBRL Interactive Data.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRUSTMARK CORPORATION

BY: /s/ Gerard R. Host  
Gerard R. Host  
President and Chief Executive Officer

BY: /s/ Louis E. Greer  
Louis E. Greer  
Treasurer, Principal Financial Officer and  
Principal Accounting Officer

DATE: November 6, 2018

DATE: November 6, 2018