TRUSTMARK CORP
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016

or

o 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 incorporation or organization)	(I.R.S. Employer 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 x No o

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

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

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

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

As of April 30, 2016, there were 67,616,209 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,” “pote “could,” “future” or the negative of those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements include, but are not limited to, statements relating to anticipated future operating and financial performance measures, including net interest margin, credit quality, business initiatives, growth opportunities and growth rates, among other things, and encompass any estimate, prediction, expectation, projection, opinion, anticipation, outlook or statement of belief included therein as well as the management assumptions underlying these forward-looking statements. You should be aware that the occurrence of the events described under the caption “Risk Factors” in Trustmark’s filings with the Securities and Exchange Commission could have an adverse effect on our business, results of operations and financial condition. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary significantly from those anticipated, estimated, projected or expected.

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Trustmark Corporation and Subsidiaries

Consolidated Balance Sheets

($ in thousands)

	(Unaudited) March 31, 2016	December 31, 2015
Assets		
Cash and due from banks (noninterest-bearing)	$228,498	$277,751
Federal funds sold and securities purchased under reverse repurchase agreements	—	250
Securities available for sale (at fair value)	2,368,120	2,345,422
Securities held to maturity (fair value: $1,199,213-2016; $1,195,367-2015)	1,168,203	1,187,818
Loans held for sale (LHFS)	191,028	160,189
Loans held for investment (LHFI)	7,268,022	7,091,385
Less allowance for loan losses, LHFI	69,668	67,619
Net LHFI	7,198,354	7,023,766
Acquired loans:		
Noncovered loans	349,781	372,711
Covered loans	14,974	17,700
Less allowance for loan losses, acquired loans	13,535	11,992
Net acquired loans	351,220	378,419
Net LHFI and acquired loans	7,549,574	7,402,185
Premises and equipment, net	194,453	195,656
Mortgage servicing rights	68,208	74,007
Goodwill	366,156	366,156
Identifiable intangible assets	25,751	27,546
Other real estate, excluding covered other real estate	71,806	77,177
Covered other real estate	496	1,651
FDIC indemnification asset	506	738
Other assets	542,397	562,350
Total Assets	$12,775,196	$12,678,896
Liabilities		
Deposits:		
Noninterest-bearing	$2,874,306	$2,998,694
Interest-bearing	6,759,337	6,589,536
Total deposits	9,633,643	9,588,230
Federal funds purchased and securities sold under repurchase agreements	466,436	441,042
Short-term borrowings	411,385	412,617

Long-term FHLB advances	501,124	501,155
Subordinated notes	49,977	49,969
Junior subordinated debt securities	61,856	61,856
Other liabilities	142,519	150,970
Total Liabilities	11,266,940	11,205,839
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,639,832 shares - 2016; 67,559,128 shares - 2015	14,093	14,076
Capital surplus	363,979	361,467
Retained earnings	1,151,757	1,142,908
Accumulated other comprehensive loss, net of tax	(21,573)	(45,394)
Total Shareholders' Equity	1,508,256	1,473,057
Total Liabilities and Shareholders' Equity	$12,775,196	$12,678,896

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Income

($ in thousands except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Interest Income		
Interest and fees on LHFS & LHFI	$72,286	$66,211
Interest and fees on acquired loans	7,022	15,078
Interest on securities:		
Taxable	20,086	19,586
Tax exempt	973	1,163
Interest on federal funds sold and securities purchased under reverse repurchase agreements	1	—
Other interest income	230	393
Total Interest Income	100,598	102,431
Interest Expense		
Interest on deposits	3,038	3,247
Interest on federal funds purchased and securities sold under repurchase agreements	431	143
Other interest expense	2,389	1,649
Total Interest Expense	5,858	5,039
Net Interest Income	94,740	97,392
Provision for loan losses, LHFI	2,243	1,785
Provision for loan losses, acquired loans	1,309	347
Net Interest Income After Provision for Loan Losses	91,188	95,260
Noninterest Income		
Service charges on deposit accounts	11,081	11,085
Bank card and other fees	6,918	6,762
Mortgage banking, net	8,699	8,965
Insurance commissions	8,593	8,616
Wealth management	7,407	7,990
Other, net	888	(1,055)
Security losses, net	(310)	—
Total Noninterest Income	43,276	42,363
Noninterest Expense		
Salaries and employee benefits	57,201	57,169
Services and fees	14,475	14,121
Net occupancy - premises	6,188	6,191
Equipment expense	6,094	5,974

ORE/Foreclosure expense	181	1,115
FDIC assessment expense	2,811	2,940
Other expense	11,994	11,706
Total Noninterest Expense	98,944	99,216
Income Before Income Taxes	35,520	38,407
Income taxes	8,517	9,259
Net Income	$27,003	$29,148
Earnings Per Share		
Basic	$0.40	$0.43
Diluted	$0.40	$0.43
Dividends Per Share	$0.23	$0.23

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands)

(Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income per consolidated statements of income	$27,003	$29,148
Other comprehensive income, net of tax:		
Unrealized gains on available for sale securities and transferred securities:		
Unrealized holding gains arising during the period	21,825	11,386
Less: adjustment for net losses realized in net income	191	—
Change in net unrealized holding loss on securities transferred to held to maturity	1,682	874
Pension and other postretirement benefit plans:		
Net change in prior service costs	38	39
Recognized net loss due to lump sum settlement	261	257
Change in net actuarial loss	545	754
Derivatives:		
Change in the accumulated loss on effective cash flow hedge derivatives	(820)	(608)
Less: adjustment for loss realized in net income	99	130
Other comprehensive income, net of tax	23,821	12,832
Comprehensive income	$50,824	$41,980

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

($ in thousands)

(Unaudited)

	2016	2015
Balance, January 1,	$1,473,057	$1,419,940
Net income per consolidated statements of income	27,003	29,148
Other comprehensive income, net of tax	23,821	12,832
Common stock dividends paid	(15,640)	(15,639)
Common stock issued-net, long-term incentive plan	(799)	(830)
Excess tax expense from stock-based compensation arrangements	(147)	(218)
Compensation expense, long-term incentive plan	961	851
Balance, March 31,	$1,508,256	$1,446,084

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net income per consolidated statements of income	$27,003	$29,148
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses, net	3,552	2,132
Depreciation and amortization	8,721	9,080
Net amortization of securities	2,087	2,050
Securities losses, net	310	—
Gains on sales of loans, net	(2,591)	(3,713)
Deferred income tax provision	125	4,625
Proceeds from sales of loans held for sale	238,007	236,732
Purchases and originations of loans held for sale	(267,422)	(275,587)
Originations of mortgage servicing rights	(3,072)	(3,126)
Increase in bank-owned life insurance	(1,226)	(1,179)
Net (increase) decrease in other assets	(3,511)	2,275
Net decrease in other liabilities	(7,185)	(9,839)
Other operating activities, net	7,078	4,554
Net cash provided by (used in) operating activities	1,876	(2,848)
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	72,168	24,372
Proceeds from calls and maturities of securities available for sale	99,722	91,776
Proceeds from sales of securities available for sale	24,693	—
Purchases of securities held to maturity	(50,031)	(6,738)
Purchases of securities available for sale	(113,654)	(112,367)
Net proceeds from bank-owned life insurance	604	—
Net decrease in federal funds sold and securities purchased under reverse repurchase agreements	250	1,885
Net decrease in member bank stock	8,280	14,100
Net (increase) decrease in loans	(153,989)	78,479
Purchases of premises and equipment	(2,814)	(2,790)
Proceeds from sales of premises and equipment	—	1,300
Proceeds from sales of other real estate	10,328	10,632
Purchases of software	(1,565)	—
Investments in tax credit and other partnerships	(46)	(38)
Net cash (used in) provided by investing activities	(106,054)	100,611

Financing Activities		
Net increase in deposits	45,413	208,632
Net increase in federal funds purchased and securities sold under repurchase agreements	25,394	79,644
Net decrease in short-term borrowings	(65)	(350,051)
Payments on long-term FHLB advances	(30)	(30)
Common stock dividends	(15,640)	(15,639)
Common stock issued-net, long-term incentive plan	—	(830)
Excess tax expense from stock-based compensation arrangements	(147)	(218)
Net cash provided by (used in) financing activities	54,925	(78,492)
(Decrease) Increase in cash and cash equivalents	(49,253)	19,271
Cash and cash equivalents at beginning of period	277,751	315,973
Cash and cash equivalents at end of period	$228,498	$335,244

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 200 offices 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.

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 2015 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 2016 actual conditions could vary from those anticipated, which could affect Trustmark's financial condition and results of operations. Actual results could differ from those estimates.

Note 2 – 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 March 31, 2016 and December 31, 2015 ($ in thousands):

	Securities Available for Sale				Securities Held to Maturity			
		Gross	Gross	Estimated		Gross	Gross	Estimated
	Amortized	Unrealized	Unrealized	Fair	Amortized	Unrealized	Unrealized	Fair
March 31, 2016	Cost	Gains	(Losses)	Value	Cost	Gains	(Losses)	Value
U.S. Government agency obligations								
Issued by U.S. Government agencies	$63,787	$522	$(495)	$63,814	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	258	28	—	286	63,085	3,437	—	66,522
Obligations of states and political subdivisions	131,464	4,197	(6)	135,655	54,278	3,116	—	57,394
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	24,582	521	(22)	25,081	16,590	533	—	17,123
Issued by FNMA and FHLMC	324,841	5,719	(2)	330,558	9,871	502	—	10,373
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,515,862	26,501	(1,822)	1,540,541	818,201	17,752	(116)	835,837

Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	265,813	6,446	(74)	272,185	206,178	5,927	(141)	211,964
Total	$2,326,607	$43,934	$(2,421)	$2,368,120	$1,168,203	$31,267	$(257)	$1,199,213
December 31, 2015								
U.S. Government agency obligations								
Issued by U.S. Government agencies	$68,314	$555	$(734)	$68,135	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	258	23	—	281	101,782	3,282	—	105,064
Obligations of states and political subdivisions	134,719	3,922	(32)	138,609	55,892	2,918	—	58,810
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	25,602	399	(189)	25,812	17,363	342	(49)	17,656
Issued by FNMA and FHLMC	222,899	2,956	(313)	225,542	10,368	311	—	10,679
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,584,338	9,541	(11,019)	1,582,860	820,012	4,951	(4,742)	820,221
Commercial mortgage-backed securities								
	278,429	2,689	(1,892)	279,226	182,401	1,700	(1,164)	182,937

Issued or guaranteed by FNMA, FHLMC or GNMA								
Asset-backed securities and structured financial products	25,003	79	(125)	24,957	—	—	—	—
Total	$2,339,562	$20,164	$(14,304)	$2,345,422	$1,187,818	$13,504	$(5,955)	$1,195,367

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 March 31, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $31.3 million ($19.3 million, net of tax).

Temporarily Impaired Securities

The tables below include securities with gross unrealized losses segregated by length of impairment at March 31, 2016 and December 31, 2015 ($ in thousands):

	Less than 12 Months		12 Months or More		Total	
March 31, 2016	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Government agency obligations						
Issued by U.S. Government agencies	$17,160	$(100)	$25,951	$(395)	$43,111	$(495)
Obligations of states and political subdivisions	2,391	(3)	975	(3)	3,366	(6)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	3,000	(9)	1,745	(13)	4,745	(22)
Issued by FNMA and FHLMC	—	—	1,054	(2)	1,054	(2)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	47,252	(133)	213,510	(1,805)	260,762	(1,938)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	9,647	(56)	21,082	(159)	30,729	(215)
Total	$79,450	$(301)	$264,317	$(2,377)	$343,767	$(2,678)
December 31, 2015						
U.S. Government agency obligations						
Issued by U.S. Government agencies	$18,924	$(81)	$30,591	$(653)	$49,515	$(734)
Obligations of states and political subdivisions	4,289	(12)	2,842	(20)	7,131	(32)
Mortgage-backed securities						

Residential mortgage pass-through securities						
Guaranteed by GNMA	20,300	(222)	1,863	(16)	22,163	(238)
Issued by FNMA and FHLMC	82,177	(313)	—	—	82,177	(313)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	1,135,533	(8,832)	238,152	(6,929)	1,373,685	(15,761)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	238,668	(2,902)	11,090	(154)	249,758	(3,056)
Asset-backed securities and structured financial products	6,778	(125)	—	—	6,778	(125)
Total	$1,506,669	$(12,487)	$284,538	$(7,772)	$1,791,207	$(20,259)

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 March 31, 2016. There were no other-than-temporary impairments for the three months ended March 31, 2016 and 2015.

Security Gains and Losses

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

Available for Sale	Three Months Ended March 31, 2016	2015
Proceeds from calls and sales of securities	$24,693	$ —
Gross realized gains	32	—
Gross realized (losses)	(342)	—

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

Securities Pledged

Securities with a carrying value of $2.216 billion and $2.157 billion at March 31, 2016 and December 31, 2015, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At both March 31, 2016 and December 31, 2015, 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 March 31, 2016, 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 Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$23,175	$23,349	$6,080	$6,219
Due after one year through five years	119,745	124,183	47,432	49,158
Due after five years through ten years	3,640	3,746	63,851	68,539
Due after ten years	48,949	48,477	—	—
	195,509	199,755	117,363	123,916
Mortgage-backed securities	2,131,098	2,168,365	1,050,840	1,075,297
Total	$2,326,607	$2,368,120	$1,168,203	$1,199,213

Note 3 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI

At March 31, 2016 and December 31, 2015, LHFI consisted of the following ($ in thousands):

	March 31, 2016	December 31, 2015
Loans secured by real estate:		
Construction, land development and other land	$697,500	$824,723
Secured by 1-4 family residential properties	1,640,015	1,649,501
Secured by nonfarm, nonresidential properties	1,893,240	1,736,476
Other real estate secured	273,752	211,228
Commercial and industrial loans	1,368,464	1,343,211
Consumer loans	164,544	169,135
State and other political subdivision loans	787,049	734,615
Other loans	443,458	422,496
LHFI	7,268,022	7,091,385
Less allowance for loan losses, LHFI	69,668	67,619
Net LHFI	$7,198,354	$7,023,766

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At March 31, 2016, 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/Impaired LHFI

At March 31, 2016 and December 31, 2015, the carrying amounts of nonaccrual LHFI were $70.7 million and $55.3 million, respectively. Included in these amounts were $6.9 million and $7.4 million, respectively, of nonaccrual LHFI classified as troubled debt restructurings (TDRs). No material interest income was recognized in the income statement on nonaccrual LHFI for each of the periods ended March 31, 2016 and 2015.

Trustmark considers all nonaccrual LHFI to be impaired loans. All commercial nonaccrual LHFI (including those classified as TDRs) over $500 thousand are specifically evaluated for impairment (specifically evaluated impaired LHFI) using a fair value approach. The remaining nonaccrual LHFI, which primarily consist of consumer loans secured by 1-4 family residential property, are not specifically reviewed. Consumer loans secured by 1-4 family residential property 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.

At March 31, 2016 and December 31, 2015, specifically evaluated impaired LHFI totaled $41.1 million and $26.5 million, respectively. Trustmark's specifically evaluated impaired LHFI are primarily collateral dependent loans. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or as is value of the collateral, normally from recently received and reviewed appraisals. Current appraisals are ordered on an annual basis based on the inspection date. 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 specifically evaluated impaired LHFI 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. Charge-offs related to specifically evaluated impaired LHFI totaled $712 thousand and $234 thousand for the first three months of 2016 and 2015, respectively. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded. At March 31, 2016 and December 31, 2015, reserves related to specifically evaluated impaired LHFI totaled $9.5 million and $7.0 million, respectively. Provision expense on specifically evaluated impaired LHFI totaled $551 thousand for the first three months of 2016 compared to $825 thousand for the first three months of 2015.

At March 31, 2016 and December 31, 2015, impaired LHFI, excluding the specifically evaluated impaired LHFI, totaled $29.6 million and $28.8 million, respectively. In addition, these impaired LHFI had allocated allowance for loan losses of $1.9 million and $2.0 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired LHFI for each of the periods ended March 31, 2016 and 2015.

The following tables detail LHFI individually and collectively evaluated for impairment at March 31, 2016 and December 31, 2015 ($ in thousands):

	March 31, 2016		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total

Loans secured by real estate:			
Construction, land development and other land	$6,308	$691,192	$697,500
Secured by 1-4 family residential properties	23,660	1,616,355	1,640,015
Secured by nonfarm, nonresidential properties	22,141	1,871,099	1,893,240
Other real estate secured	93	273,659	273,752
Commercial and industrial loans	17,827	1,350,637	1,368,464
Consumer loans	86	164,458	164,544
State and other political subdivision loans	—	787,049	787,049
Other loans	579	442,879	443,458
Total	$70,694	$7,197,328	$7,268,022

	December 31, 2015		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$6,123	$818,600	$824,723
Secured by 1-4 family residential properties	23,079	1,626,422	1,649,501
Secured by nonfarm, nonresidential properties	17,800	1,718,676	1,736,476
Other real estate secured	145	211,083	211,228
Commercial and industrial loans	7,622	1,335,589	1,343,211
Consumer loans	31	169,104	169,135
State and other political subdivision loans	—	734,615	734,615
Other loans	512	421,984	422,496
Total	$55,312	$7,036,073	$7,091,385

At March 31, 2016 and December 31, 2015, the carrying amount of LHFI individually evaluated for impairment consisted of the following ($ in thousands):

	March 31, 2016					
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land	$9,512	$ 3,331	$ 2,977	$6,308	$ 736	$ 6,216
Secured by 1-4 family residential properties	28,409	377	23,283	23,660	1,219	23,369
Secured by nonfarm, nonresidential properties	24,784	7,411	14,730	22,141	4,374	19,971
Other real estate secured	109	—	93	93	14	119
Commercial and industrial loans	19,964	1,020	16,807	17,827	4,890	12,724
Consumer loans	91	—	86	86	1	59
State and other political subdivision loans	—	—	—	—	—	—
Other loans	721	—	579	579	179	546
Total	$83,590	$ 12,139	$ 58,555	$70,694	$ 11,413	$ 63,004

	December 31, 2015					
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment

Loans secured by real estate:						
Construction, land development and other land	$11,113	$ 3,395	$ 2,728	$ 6,123	$ 909	$ 9,995
Secured by 1-4 family residential properties	27,678	283	22,796	23,079	1,230	24,350
Secured by nonfarm, nonresidential properties	20,387	8,037	9,763	17,800	3,402	21,758
Other real estate secured	160	—	145	145	15	732
Commercial and industrial loans	9,880	1,137	6,485	7,622	3,304	9,863
Consumer loans	34	—	31	31	—	59
State and other political subdivision loans	—	—	—	—	—	—
Other loans	642	—	512	512	128	570
Total	$69,894	$ 12,852	$ 42,460	$ 55,312	$ 8,988	$ 67,327

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

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310. Accordingly, Trustmark measures any loss on the restructuring in accordance with that guidance. A TDR in which Trustmark receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, is accounted for in accordance with FASB ASC Subtopic 310-40, "Troubled Debt Restructurings by Creditors." Thus, the loan is treated as if assets have been received in satisfaction of the loan and reported as a foreclosed asset. At March 31, 2016 and December 31, 2015, Trustmark held $921 thousand and $1.0 million, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFI classified as TDRs. Consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings at March 31, 2016 and December 31, 2015 totaled $61 thousand and $83 thousand, respectively.

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 March 31, 2016 and 2015, LHFI classified as TDRs totaled $9.2 million and $10.8 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time which totaled $5.7 million and $6.9 million, respectively. The remaining TDRs at March 31, 2016 and 2015 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions.

For TDRs, Trustmark had a related loan loss allowance of $1.7 million and $1.8 million at March 31, 2016 and 2015, respectively. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. There were no specific charge-offs related to TDRs for the three months ended March 31, 2016 and 2015.

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 March 31,					
	2016			2015		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Loans secured by 1-4 family residential properties	2	$ 71	$ 71	6	$ 378	$ 378

Three Months Ended March 31,

	2016		2015	
	Number of	Recorded	Number of	Recorded
TDRs that Subsequently Defaulted	Contracts	Investment	Contracts	Investment
Loans secured by 1-4 family residential properties	1	$ 17	2	$ 183

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 March 31, 2016 and 2015 ($ in thousands):

	March 31, 2016		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 845	$845
Secured by 1-4 family residential properties	1,444	2,086	3,530
Secured by nonfarm, nonresidential properties	799	3,566	4,365
Other real estate secured	—	—	—
Commercial and industrial loans	—	448	448
Total TDRs	$2,243	$ 6,945	$9,188

	March 31, 2015		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 3,086	$3,086
Secured by 1-4 family residential properties	1,477	3,605	5,082
Secured by nonfarm, nonresidential properties	834	1,121	1,955
Other real estate secured	—	149	149
Commercial and industrial loans	—	511	511
Total TDRs	$2,311	$ 8,472	$10,783

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 unique to 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, completeness and organization 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, is not considered current or has expired.

- 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) and Regulation O requirements.

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 adverse 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 is 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, loans of a certain size 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 not carried on Trustmark’s books over quarter-end as they are charged off within the period that the loss is determined.

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 concentrations 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, the Credit Quality Review Committee performs the following reviews on an annual basis:

- Residential real estate developments - a development project analysis is performed on all projects regardless of size. Performance of the development is assessed through an evaluation of the number of lots remaining, payout ratios, and loan-to-value ratios. Results are stress tested as to the capacity to absorb losses and price of lots. This analysis is reviewed by each senior credit officer for the respective market to determine the need for any risk rate or accrual status changes.
- Non-owner occupied commercial real estate - a cash flow analysis is performed on all projects with an outstanding balance of $1.0 million or more. In addition, credits are stress tested for vacancies and rate sensitivity. Confirmation is obtained that guarantor financial statements are current, taxes have been paid and there are no other issues that need to be addressed. This analysis is reviewed by each senior credit officer in the respective market to determine the need for any risk rate or accrual status changes.

Consumer Credits

Consumer LHFI 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 assure that Trustmark continues to originate quality loans, this process allows Management to make necessary changes such as revisions to underwriting procedures and credit policies, or changes in loan authority to Trustmark personnel.

Trustmark monitors the levels and severity of past due consumer LHFI on a daily basis through its collection activities. A detailed assessment of consumer LHFI 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. Trustmark also monitors its consumer LHFI delinquency trends by comparing them to quarterly industry averages.

The tables below illustrate the carrying amount of LHFI by credit quality indicator at March 31, 2016 and December 31, 2015 ($ in thousands):

	March 31, 2016				
	Commercial LHFI				
	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	$617,582	$ —	$ 14,191	$ 526	$632,299
Secured by 1-4 family residential	119,537	552	8,194	356	128,639

properties					
Secured by nonfarm, nonresidential properties	1,832,682	1,487	57,525	673	1,892,367
Other real estate secured	271,453	—	1,283	—	272,736
Commercial and industrial loans	1,312,644	810	54,237	773	1,368,464
Consumer loans	—	—	—	—	—
State and other political subdivision loans	769,592	7,000	10,456	—	787,048
Other loans	435,973	—	2,459	445	438,877
Total	$5,359,463	$ 9,849	$ 148,345	$ 2,773	$5,520,430

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	Consumer LHFI					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total LHFI
Loans secured by real estate:						
Construction, land development and other land	$64,411	$251	$ 54	$ 485	$65,201	$697,500
Secured by 1-4 family residential properties	1,483,060	6,535	403	21,378	1,511,376	1,640,015
Secured by nonfarm, nonresidential properties	873	—	—	—	873	1,893,240
Other real estate secured	1,016	—	—	—	1,016	273,752
Commercial and industrial loans	—	—	—	—	—	1,368,464
Consumer loans	162,973	1,332	154	85	164,544	164,544
State and other political subdivision loans	1	—	—	—	1	787,049
Other loans	4,581	—	—	—	4,581	443,458
Total	$1,716,915	$8,118	$ 611	$ 21,948	$1,747,592	$7,268,022

	December 31, 2015				
	Commercial LHFI				
	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	$746,227	$—	$ 15,637	$ 529	$762,393
Secured by 1-4 family residential properties	125,268	345	7,525	190	133,328
Secured by nonfarm, nonresidential properties	1,680,846	2,031	52,485	361	1,735,723
Other real estate secured	205,097	—	4,768	—	209,865
Commercial and industrial loans	1,295,760	9,473	37,284	694	1,343,211
Consumer loans	—	—	—	—	—
State and other political subdivision loans	713,616	12,478	8,521	—	734,615
Other loans	414,089	183	2,663	375	417,310

Total	$5,180,903	$24,510	$ 128,883	$ 2,149	$5,336,445

Consumer LHFI						
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total LHFI
Loans secured by real estate:						
Construction, land development and other land	$62,158	$146	$—	$ 26	$62,330	$824,723
Secured by 1-4 family residential properties	1,485,914	7,565	2,058	20,636	1,516,173	1,649,501
Secured by nonfarm, nonresidential properties	753	—	—	—	753	1,736,476
Other real estate secured	1,363	—	—	—	1,363	211,228
Commercial and industrial loans	—	—	—	—	—	1,343,211
Consumer loans	166,681	2,182	242	30		