TRUSTMARK CORP
Form 10-Q
November 04, 2016

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, 2016

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 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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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, 2016, there were 67,627,272 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, including those associated with the planned termination of our noncontributory tax-qualified defined benefit pension plan, 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, 2016	December 31, 2015
Assets		
Cash and due from banks (noninterest-bearing)	$383,945	$277,751
Federal funds sold and securities purchased under reverse repurchase agreements	500	250
Securities available for sale (at fair value)	2,410,947	2,345,422
Securities held to maturity (fair value: $1,173,101-2016; $1,195,367-2015)	1,143,234	1,187,818
Loans held for sale (LHFS)	242,097	160,189
Loans held for investment (LHFI)	7,499,204	7,091,385
Less allowance for loan losses, LHFI	70,871	67,619
Net LHFI	7,428,333	7,023,766
Acquired loans:		
Noncovered loans	291,825	372,711
Covered loans	3,912	17,700
Less allowance for loan losses, acquired loans	11,380	11,992
Net acquired loans	284,357	378,419
Net LHFI and acquired loans	7,712,690	7,402,185
Premises and equipment, net	190,930	195,656
Mortgage servicing rights	65,514	74,007
Goodwill	366,156	366,156
Identifiable intangible assets	22,366	27,546
Other real estate, excluding covered other real estate	64,993	77,177
Covered other real estate	—	1,651
FDIC indemnification asset	—	738
Other assets	558,166	562,350
Total Assets	$13,161,538	$12,678,896
Liabilities		
Deposits:		
Noninterest-bearing	$3,111,603	$2,998,694
Interest-bearing	6,574,098	6,589,536
Total deposits	9,685,701	9,588,230
Federal funds purchased and securities sold under repurchase agreements	514,918	441,042
Short-term borrowings	412,792	412,617
Long-term FHLB advances	751,075	501,155
Subordinated notes	49,993	49,969

Junior subordinated debt securities	61,856	61,856
Other liabilities	150,442	150,970
Total Liabilities	11,626,777	11,205,839
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,626,939 shares - 2016; 67,559,128 shares - 2015	14,090	14,076
Capital surplus	365,553	361,467
Retained earnings	1,172,193	1,142,908
Accumulated other comprehensive loss, net of tax	(17,075)	(45,394)
Total Shareholders' Equity	1,534,761	1,473,057
Total Liabilities and Shareholders' Equity	$13,161,538	$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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on LHFS & LHFI	$76,524	$69,458	$222,555	$203,836
Interest and fees on acquired loans	6,781	11,607	21,854	39,242
Interest on securities:				
Taxable	19,351	20,264	58,839	59,581
Tax exempt	902	1,046	2,804	3,306
Interest on federal funds sold and securities purchased under reverse repurchase agreements	5	2	10	4
Other interest income	223	392	653	1,177
Total Interest Income	103,786	102,769	306,715	307,146
Interest Expense				
Interest on deposits	3,208	3,147	9,368	9,598
Interest on federal funds purchased and securities sold under repurchase agreements	411	205	1,246	527
Other interest expense	2,603	1,811	7,420	5,074
Total Interest Expense	6,222	5,163	18,034	15,199
Net Interest Income	97,564	97,606	288,681	291,947
Provision for loan losses, LHFI	4,284	2,514	9,123	5,332
Provision for loan losses, acquired loans	691	1,256	2,607	2,428
Net Interest Income After Provision for Loan Losses	92,589	93,836	276,951	284,187
Noninterest Income				
Service charges on deposit accounts	11,677	12,400	33,809	35,405
Bank card and other fees	6,756	6,964	21,110	21,142
Mortgage banking, net	7,364	7,443	22,784	25,889
Insurance commissions	10,074	9,906	28,305	27,923
Wealth management	7,571	7,790	22,987	23,538
Other, net	1,274	1,470	3,534	(18)
Security losses, net	—	—	(310)	—
Total Noninterest Income	44,716	45,973	132,219	133,879
Noninterest Expense				
Salaries and employee benefits	57,250	58,270	181,469	172,832
Services and fees	14,947	14,691	43,944	43,817
Net occupancy - premises	6,440	6,580	18,556	19,014
Equipment expense	6,063	5,877	18,053	17,754

Other real estate expense	(1,313)	3,385	61	5,421
FDIC assessment expense	2,911	2,559	8,681	8,114
Other expense	11,610	12,198	36,267	36,090
Total Noninterest Expense	97,908	103,560	307,031	303,042
Income Before Income Taxes	39,397	36,249	102,139	115,024
Income taxes	8,415	7,819	22,651	26,844
Net Income	$30,982	$28,430	$79,488	$88,180
Earnings Per Share				
Basic	$0.46	$0.42	$1.18	$1.31
Diluted	$0.46	$0.42	$1.17	$1.30
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 Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income per consolidated statements of income	$30,982	$28,430	$79,488	$88,180
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on available for sale securities and transferred securities:				
Unrealized holding (losses) gains arising during the period	(7,816)	11,035	19,796	8,470
Less: adjustment for net losses realized in net income	—	—	191	—
Change in net unrealized holding loss on securities transferred to held to maturity	1,653	1,036	5,171	2,931
Pension and other postretirement benefit plans:				
Net change in prior service costs	39	39	116	116
Recognized net loss due to lump sum settlement	286	373	1,935	926
Change in net actuarial loss	573	751	1,658	2,256
Derivatives:				
Change in the accumulated loss on effective cash flow hedge derivatives	257	(751)	(840)	(1,185)
Less: adjustment for loss realized in net income	97	130	292	390
Other comprehensive (loss) income, net of tax	(4,911)	12,613	28,319	13,904
Comprehensive income	$26,071	$41,043	$107,807	$102,084

See notes to consolidated financial statements.

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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	79,488	88,180
Other comprehensive income, net of tax	28,319	13,904
Common stock dividends paid	(46,983)	(46,952)
Common stock issued-net, long-term incentive plan	(992)	(842)
Repurchase and retirement of common stock	(750)	—
Excess tax expense from stock-based compensation arrangements	(119)	(212)
Compensation expense, long-term incentive plan	2,741	2,738
Balance, September 30,	$1,534,761	$1,476,756

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands)

(Unaudited)

	Nine Months Ended September 30, 2016	2015
Operating Activities		
Net income per consolidated statements of income	$79,488	$88,180
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, net	11,730	7,760
Depreciation and amortization	27,183	27,995
Net amortization of securities	6,833	6,411
Securities losses, net	310	—
Gains on sales of loans, net	(14,477)	(13,301)
Deferred income tax provision	12,900	11,600
Proceeds from sales of loans held for sale	1,030,784	943,804
Purchases and originations of loans held for sale	(1,096,979)	(985,935)
Originations of mortgage servicing rights	(12,392)	(13,321)
Increase in bank-owned life insurance	(3,653)	(3,598)
Net (increase) decrease in other assets	(20,833)	18,480
Net increase (decrease) in other liabilities	5,405	(1,151)
Other operating activities, net	14,617	6,325
Net cash provided by operating activities	40,916	93,249
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	221,002	95,467
Proceeds from calls and maturities of securities available for sale	344,160	345,156
Proceeds from sales of securities available for sale	24,693	—
Purchases of securities held to maturity	(168,665)	(68,715)
Purchases of securities available for sale	(408,532)	(375,866)
Net proceeds from bank-owned life insurance	604	655
Net (increase) decrease in federal funds sold and securities purchased under reverse repurchase agreements	(250)	1,885
Net increase in member bank stock	(2,153)	(12,585)
Net increase in loans	(343,707)	(247,772)
Purchases of premises and equipment	(6,929)	(9,934)
Proceeds from sales of premises and equipment	435	2,896
Proceeds from sales of other real estate	37,378	33,809
Purchases of software	(5,072)	(6,576)
Investments in tax credit and other partnerships	(46)	(315)
Purchase of insurance book of business	—	(2,787)

Net cash used in investing activities	(307,082)	(244,682)
Financing Activities		
Net increase (decrease) in deposits	97,471	(285,954)
Net increase in federal funds purchased and securities sold under repurchase agreements	73,876	90,661
Net (decrease) increase in short-term borrowings	(1,057)	298,888
Payments on long-term FHLB advances	(78)	(77)
Proceeds from long-term FHLB advances	250,000	—
Common stock dividends	(46,983)	(46,952)
Common stock issued-net, long-term incentive plan	—	(842)
Repurchase and retirement of common stock	(750)	—
Excess tax expense from stock-based compensation arrangements	(119)	(212)
Net cash provided by financing activities	372,360	55,512
Increase (Decrease) in cash and cash equivalents	106,194	(95,921)
Cash and cash equivalents at beginning of period	277,751	315,973
Cash and cash equivalents at end of period	$383,945	$220,052

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 194 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 September 30, 2016 and December 31, 2015 ($ in thousands):

September 30, 2016	Securities Available for Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Securities Held to Maturity Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. Government agency obligations								
Issued by U.S. Government agencies	$58,259	$482	$(507)	$58,234	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	257	26	—	283	3,636	337	—	3,973
Obligations of states and political subdivisions	121,485	3,167	(11)	124,641	52,937	2,615	(4)	55,548
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	36,130	712	(54)	36,788	16,183	666	—	16,849
Issued by FNMA and FHLMC	554,916	7,239	(166)	561,989	39,989	810	—	40,799
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,353,984	21,507	(1,092)	1,374,399	831,662	18,690	(60)	850,292

Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	247,689	6,945	(21)	254,613	198,827	6,921	(108)	205,640
Total	$2,372,720	$40,078	$(1,851)	$2,410,947	$1,143,234	$30,039	$(172)	$1,173,101
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

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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, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $25.7 million ($15.8 million, net of tax).

Temporarily Impaired Securities

The tables below include securities with gross unrealized losses segregated by length of impairment at September 30, 2016 and December 31, 2015 ($ in thousands):

	Less than 12 Months		12 Months or More		Total	
September 30, 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	$10,548	$(86)	$30,728	$(421)	$41,276	$(507)
Obligations of states and political subdivisions	7,495	(13)	969	(2)	8,464	(15)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	9,072	(50)	249	(4)	9,321	(54)
Issued by FNMA and FHLMC	100,191	(166)	—	—	100,191	(166)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	72,256	(154)	98,118	(998)	170,374	(1,152)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	10,512	(21)	5,815	(108)	16,327	(129)
Total	$210,074	$(490)	$135,879	$(1,533)	$345,953	$(2,023)
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 September 30, 2016. There were no other-than-temporary impairments for the three and nine months ended September 30, 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 September 30, 2016	2015	Nine Months Ended September 30, 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 $1.826 billion and $2.157 billion at September 30, 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 September 30, 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 September 30, 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	$32,173	$32,377	$5,845	$5,845
Due after one year through five years	99,840	103,180	27,025	28,099
Due after five years through ten years	8,263	8,332	23,703	25,577
Due after ten years	39,725	39,269	—	—
	180,001	183,158	56,573	59,521
Mortgage-backed securities	2,192,719	2,227,789	1,086,661	1,113,580
Total	$2,372,720	$2,410,947	$1,143,234	$1,173,101

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

At September 30, 2016 and December 31, 2015, LHFI consisted of the following ($ in thousands):

	September 30, 2016	December 31, 2015
Loans secured by real estate:		
Construction, land development and other land	$766,685	$824,723
Secured by 1-4 family residential properties	1,592,453	1,649,501
Secured by nonfarm, nonresidential properties	1,916,153	1,736,476
Other real estate secured	317,680	211,228
Commercial and industrial loans	1,421,382	1,343,211
Consumer loans	170,073	169,135
State and other political subdivision loans	875,973	734,615
Other loans	438,805	422,496
LHFI	7,499,204	7,091,385
Less allowance for loan losses, LHFI	70,871	67,619
Net LHFI	$7,428,333	$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 September 30, 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 September 30, 2016 and December 31, 2015, the carrying amounts of nonaccrual LHFI were $54.4 million and $55.3 million, respectively. Included in these amounts were $3.7 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 September 30, 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 September 30, 2016 and December 31, 2015, specifically evaluated impaired LHFI totaled $28.6 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 $5.0 million and $9.7 million for the first nine 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 September 30, 2016 and December 31, 2015, reserves related to specifically evaluated impaired LHFI totaled $4.5 million and $7.0 million, respectively. Provision recapture on specifically evaluated impaired LHFI totaled $2.0 million for the first nine months of 2016 compared to provision expense of $4.5 million for the first nine months of 2015.

At September 30, 2016 and December 31, 2015, impaired LHFI, excluding the specifically evaluated impaired LHFI, totaled $25.8 million and $28.8 million, respectively. In addition, these impaired LHFI had allocated allowance for loan losses of $2.3 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 September 30, 2016 and 2015.

The following tables detail LHFI individually and collectively evaluated for impairment at September 30, 2016 and December 31, 2015 ($ in thousands):

September 30, 2016
LHFI Evaluated for Impairment

	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$4,724	$761,961	$766,685
Secured by 1-4 family residential properties	20,107	1,572,346	1,592,453
Secured by nonfarm, nonresidential properties	10,313	1,905,840	1,916,153
Other real estate secured	1,731	315,949	317,680
Commercial and industrial loans	16,525	1,404,857	1,421,382
Consumer loans	189	169,884	170,073
State and other political subdivision loans	—	875,973	875,973
Other loans	821	437,984	438,805
Total	$54,410	$7,444,794	$7,499,204

	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 September 30, 2016 and December 31, 2015, the carrying amount of LHFI individually evaluated for impairment consisted of the following ($ in thousands):

	September 30, 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	$8,186	$ 3,113	$ 1,611	$4,724	$ 453	$ 5,424
Secured by 1-4 family residential properties	25,160	495	19,612	20,107	1,514	21,593
Secured by nonfarm, nonresidential properties	11,633	1,312	9,001	10,313	2,316	14,058
Other real estate secured	1,782	1,000	731	1,731	90	938
Commercial and industrial loans	18,203	12,055	4,470	16,525	2,305	12,073
Consumer loans	193	—	189	189	2	111
State and other political subdivision loans	—	—	—	—	—	—
Other loans	966	—	821	821	154	667
Total	$66,123	$ 17,975	$ 36,435	$54,410	$ 6,834	$ 54,864

	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 September 30, 2016 and December 31, 2015, Trustmark held $880 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. There were no consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings at September 30, 2016 compared to $83 thousand at December 31, 2015.

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, 2016 and 2015, LHFI classified as TDRs totaled $3.7 million and $11.2 million, respectively, and were comprised of credits with interest-only payments for an extended period of time which totaled $1.6 million and $7.5 million, respectively. The remaining TDRs at September 30, 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 $31 thousand and $1.2 million at September 30, 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. Specific charge-offs related to TDRs for the nine months ended September 30, 2016 were $ 1.0 million compared to $806 thousand for the nine months ended September 30, 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 September 30,					
	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	$ 35	$ 35

	Nine Months Ended September 30,					
	2016			2015		
Troubled Debt Restructurings	Number of	Pre-Modification Outstanding	Post-Modification Outstanding	Number of	Pre-Modification Outstanding	Post-Modification Outstanding

	Contracts	Recorded Investment	Recorded Investment	Contracts	Recorded Investment	Recorded Investment
Construction, land development and other land loans	1	$ 14	$ 14	—	$ —	$ —
Loans secured by 1-4 family residential properties	8	740	740	10	495	495
Loans secured by nonfarm, nonresidential properties	—	—	—	4	3,512	3,512
Consumer loans	1	2	2	—	—	—
Total	10	$ 756	$ 756	14	$ 4,007	$ 4,007

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	Nine Months Ended September 30,			
	2016		2015	
TDRs that Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Loans secured by 1-4 family residential properties	1	$ 101	4	$ 243

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, 2016 and 2015 ($ in thousands):

	September 30, 2016		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 556	$556
Secured by 1-4 family residential properties	—	2,545	2,545
Secured by nonfarm, nonresidential properties	—	179	179
Commercial and industrial loans	—	387	387
Consumer loans	—	2	2
Total TDRs	$—	$ 3,669	$3,669

	September 30, 2015		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 1,006	$1,006
Secured by 1-4 family residential properties	1,385	2,921	4,306
Secured by nonfarm, nonresidential properties	819	4,503	5,322
Other real estate secured	—	62	62
Commercial and industrial loans	—	477	477
Total TDRs	$2,204	$ 8,969	$11,173

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, 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 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, 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 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 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 following reviews are performed 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. 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. 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 ensure that Trustmark continues to originate quality loans.

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 September 30, 2016 and December 31, 2015 ($ in thousands):

September 30, 2016				
Commercial LHFI				
Pass -	Special Mention - Category 7	Substandard -	Doubtful -	Subtotal

	Categories 1-6		Category 8	Category 9	
Loans secured by real estate:					
Construction, land development and other land	$687,123	$ 8,494	$ 9,410	$ 469	$705,496
Secured by 1-4 family residential properties	124,472	467	6,262	361	131,562
Secured by nonfarm, nonresidential properties	1,870,036	3,196	41,668	494	1,915,394
Other real estate secured	314,858	—	1,957	—	316,815
Commercial and industrial loans	1,304,137	9,094	107,405	746	1,421,382
Consumer loans	—	—	—	—	—
State and other political subdivision loans	858,168	6,450	11,355	—	875,973
Other loans	429,403	340	2,232	642	432,617
Total	$5,588,197	$ 28,041	$ 180,289	$ 2,712	$5,799,239

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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	$60,546	$176	$ —	$ 467	$61,189	$766,685
Secured by 1-4 family residential properties	1,435,347	8,173	717	16,654	1,460,891	1,592,453
Secured by nonfarm, nonresidential properties	759	—	—	—	759	1,916,153
Other real estate secured	865	—	—	—	865	317,680
Commercial and industrial loans	—	—	—	—	—	1,421,382
Consumer loans	167,817	1,845	218	193	170,073	170,073
State and other political subdivision loans	—	—	—	—	—	875,973
Other loans	6,188	—	—	—	6,188	438,805
Total	$1,671,522	$10,194	$ 935	$ 17,314	$1,699,965	$7,499,204

	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	169,135	169,135
State and other political subdivision loans	—	—	—	—	—	734,615
Other loans	5,186	—	—	—	5,186	422,496
Total	$1,722,055	$9,893	$2,300	$ 20,692	$1,754,940	$7,091,385

Past Due LHFI

The following tables provide an aging analysis of past due and nonaccrual LHFI by loan type at September 30, 2016 and December 31, 2015 ($ in thousands):

	September 30, 2016						
	Past Due						
			90 Days			Current	
	30-59 Days	60-89 Days	or More (1)	Total	Nonaccrual	Loans	Total LHFI
Loans secured by real estate:							
Construction, land development and other land	$1,136	$78	$ —	$1,214	$ 4,724	$760,747	$766,685
Secured by 1-4 family residential properties	6,801	1,803	717	9,321	20,107	1,563,025	1,592,453
Secured by nonfarm, nonresidential properties	576	—	18	594	10,313	1,905,246	1,916,153
Other real estate secured	144	—	—	144	1,731	315,805	317,680
Commercial and industrial loans	868	180	—	1,048	16,525	1,403,809	1,421,382
Consumer loans	1,465	380	218	2,063	189	167,821	170,073
State and other political subdivision loans	—	—	—	—	—	875,973	875,973
Other loans	147	2	—	149	821	437,835	438,805
Total	$11,137	$2,443	$ 953	$14,533	$ 54,410	$7,430,261	$7,499,204

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

	December 31, 2015						
	Past Due						
			90 Days			Current	
	30-59 Days	60-89 Days	or More (1)	Total	Nonaccrual	Loans	Total LHFI
Loans secured by real estate:							
Construction, land development and other land	$214	$—	$ —	$214	$ 6,123	$818,386	$824,723
Secured by 1-4 family residential properties	6,203	1,800	2,058	10,061	23,079	1,616,361	1,649,501
Secured by nonfarm, nonresidential properties	437	88	—	525	17,800	1,718,151	1,736,476

Other real estate secured	—	—	—	—	145	211,083	211,228
Commercial and industrial loans	921	45	—	966	7,622	1,334,623	1,343,211
Consumer loans	1,835	347	242	2,424	31	166,680	169,135
State and other political subdivision loans	65	—	—	65	—	734,550	734,615
Other loans	68	—	—	68	512	421,916	422,496
Total	$9,743	$2,280	$ 2,300	$14,323	$ 55,312	$7,021,750	$7,091,385

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

Past Due Loans Held for Sale (LHFS)

LHFS past due 90 days or more totaled $25.6 million and $21.8 million at September 30, 2016 and December 31, 2015, 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.

During the first quarter of 2015, Trustmark exercised its option to repurchase approximately $28.5 million of delinquent loans serviced for GNMA. These loans were subsequently sold to a third party under different repurchase provisions. Trustmark retained the servicing for these loans, which are subject to guarantees by FHA/VA. As a result of this repurchase and sale, the loans are no longer carried as LHFS. The transaction resulted in a gain of $304 thousand, which is included in mortgage banking, net for 2015. Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first nine months of 2016.

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
- 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 LHFI 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 four 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 four qualitative factors include the following:

- Economic indicators
- Performance trends
- Management experience
- Credit concentrations

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.

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

	Three Months Ended September	Nine Months Ended September 30,

	30, 2016	2015	2016	2015
Balance at beginning of period	$71,796	$71,166	$67,619	$69,616
Loans charged-off	(8,279)	(11,406)	(14,893)	(18,688)
Recoveries	3,070	3,333	9,022	9,347
Net charge-offs	(5,209)	(8,073)	(5,871)	(9,341)
Provision for loan losses, LHFI	4,284	2,514	9,123	5,332
Balance at end of period	$70,871	$65,607	$70,871	$65,607

The following tables detail the balance in the allowance for loan losses, LHFI by loan type at September 30, 2016 and 2015 ($ in thousands):

	2016				
	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance September 30,
Loans secured by real estate:					
Construction, land development and other land	$11,587	$ (212)	$ 1,006	$ (3,183)	$ 9,198
Secured by 1-4 family residential properties	10,678	(1,129)	680	172	10,401
Secured by nonfarm, nonresidential properties	21,563	(1,662)	823	1,479	22,203
Other real estate secured	2,467	—	5	(213)	2,259
Commercial and industrial loans	15,815	(6,408)	519	10,982	20,908
Consumer loans	2,879	(1,398)	3,397	(1,851)	3,027
State and other political subdivision loans	809	—	—	68	877
Other loans	1,821	(4,084)	2,592	1,669	1,998
Total allowance for loan losses, LHFI	$67,619	$ (14,893)	$ 9,022	$ 9,123	$ 70,871

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$453	$ 8,745	$9,198
Secured by 1-4 family residential properties	1,514	8,887	10,401
Secured by nonfarm, nonresidential properties	2,316	19,887	22,203
Other real estate secured	90	2,169	2,259
Commercial and industrial loans	2,305	18,603	20,908
Consumer loans	2	3,025	3,027
State and other political subdivision loans	—	877	877
Other loans	154	1,844	1,998
Total allowance for loan losses, LHFI	$6,834	$ 64,037	$70,871

	2015				
	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance September 30,
Loans secured by real estate:					
Construction, land development and other land loans	$13,073	$ (2,236)	$ 1,274	$ 395	$ 12,506
Secured by 1-4 family residential properties	9,677	(2,013)	781	1,529	9,974
Secured by nonfarm, nonresidential properties	18,523	(1,282)	397	(1,517)	16,121
Other real estate secured	2,141	(24)	6	(382)	1,741

Commercial and industrial loans	19,917	(7,243)	1,553	5,109	19,336
Consumer loans	2,149	(1,543)	2,639	(1,166)	2,079
State and other political subdivision loans	1,314	—	—	(624)	690
Other loans	2,822	(4,347)	2,697	1,988	3,160
Total allowance for loan losses, LHFI	$69,616	$ (18,688)	$ 9,347	$ 5,332	$ 65,607

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$2,054	$ 10,452	$12,506
Secured by 1-4 family residential properties	267	9,707	9,974
Secured by nonfarm, nonresidential properties	2,602	13,519	16,121
Other real estate secured	28	1,713	1,741
Commercial and industrial loans	2,956	16,380	19,336
Consumer loans	—	2,079	2,079
State and other political subdivision loans	—	690	690
Other loans	200	2,960	3,160
Total allowance for loan losses, LHFI	$8,107	$ 57,500	$65,607

Note 4 – Acquired Loans

At September 30, 2016 and December 31, 2015, acquired loans consisted of the following ($ in thousands):

	September 30, 2016		December 31, 2015	
	Noncovered	Covered (1)	Noncovered	Covered
Loans secured by real estate:				
Construction, land development and other land	$25,040	$—	$41,623	$1,021
Secured by 1-4 family residential properties	72,689	3,912	86,950	10,058
Secured by nonfarm, nonresidential properties	110,606	—	135,626	4,638
Other real estate secured	20,903	—	23,860	1,286
Commercial and industrial loans	39,519	—	55,075	624
Consumer loans	3,878	—	5,641	—
Other loans	19,190	—	23,936	73
Acquired loans	291,825	3,912	372,711	17,700
Less allowance for loan losses, acquired loans	11,330	50	11,259	733
Net acquired loans	$280,495	$3,862	$361,452	$16,967

(1) Trustmark's loss share agreement with the FDIC covering the acquired covered loans other than loans secured by 1-4 family residential properties expired on June 30, 2016. Trustmark's loss share agreement with the FDIC covering the acquired covered loans secured by 1-4 family residential properties will expire in 2021. Effective July 1, 2016, all acquired covered loans excluding the acquired covered loans secured by 1-4 family residential properties were reclassified to acquired noncovered loans.

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

	Noncovered		Covered	
	Acquired Impaired	Acquired Not ASC 310-30 (1)	Acquired Impaired	Acquired Not ASC 310-30 (1)
Carrying value, net at January 1, 2015	$434,151	$81,091	$20,504	$ 1,604
Accretion to interest income	28,193	479	2,308	—
Payments received, net	(164,671)	(15,484)	(8,592)	(33)
Other (2)	(1,589)	—	391	—
Less change in allowance for loan losses, acquired loans	(718)	—	785	—

Carrying value, net at December 31, 2015	295,366	66,086	15,396	1,571
Transfers (3)	9,157	446	(9,157)	(446)
Accretion to interest income	13,498	40	853	—
Payments received, net	(75,875)	(28,861)	(4,203)	(421)
Other (2)	709	—	(414)	—
Less change in allowance for loan losses, acquired loans	(523)	452	1,137	(454)
Carrying value, net at September 30, 2016	$242,332	$38,163	$3,612	$ 250

(1) "Acquired Not ASC 310-30" loans consist of revolving credit agreements and commercial leases that are not in scope for FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality."
(2) Includes miscellaneous timing adjustments as well as acquired loan terminations through foreclosure, charge-off and other terminations.
(3) Covered acquired loans transferred to noncovered acquired loans as a result of expiration of the related indemnification agreement with the FDIC on June 30, 2016.

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,	
	2016	2015
Accretable yield at beginning of period	$(52,672)	$(77,149)
Accretion to interest income	14,351	24,907
Disposals	4,306	8,194
Reclassification from nonaccretable difference (1)	(7,046)	(12,215)
Accretable yield at end of period	$(41,061)	$(56,263)

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

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, 2016			Nine Months Ended September 30, 2016		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Balance at beginning of period	$12,218	$ 262	$12,480	$11,259	$ 733	$11,992
Transfers (1)	215	(215)	—	215	(215)	—
Provision for loan losses, acquired loans	686	5	691	2,969	(362)	2,607
Loans charged-off	(2,590)	—	(2,590)	(4,959)	(82)	(5,041)
Recoveries	801	(2)	799	1,846	(24)	1,822
Net charge-offs	(1,789)	(2)	(1,791)	(3,113)	(106)	(3,219)
Balance at end of period	$11,330	$ 50	$11,380	$11,330	$ 50	$11,380

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Balance at beginning of period	$11,927	$ 702	$12,629	$10,541	$ 1,518	$12,059
Provision for loan losses, acquired loans	1,221	35	1,256	2,797	(369)	2,428
Loans charged-off	(2,456)	(110)	(2,566)	(5,024)	(560)	(5,584)
Recoveries	725	141	866	3,103	179	3,282
Net (charge-offs) recoveries	(1,731)	31	(1,700)	(1,921)	(381)	(2,302)
Balance at end of period	$11,417	$ 768	$12,185	$11,417	$ 768	$12,185

(1) The allowance for loan losses on covered acquired loans other than loans secured by 1-4 family residential properties transferred to the allowance for loan losses on noncovered acquired loans as a result of expiration of the related indemnification agreement with the FDIC on June 30, 2016.

As discussed in Note 3 - 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 illustrate the carrying amount of acquired loans by credit quality indicator at September 30, 2016 and December 31, 2015 ($ in thousands):

	September 30, 2016				
	Commercial Loans				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Noncovered Loans:					
Loans secured by real estate:					
Construction, land development and other land	$14,624	$ 117	$ 7,900	$ 322	$22,963
Secured by 1-4 family residential properties	17,629	56	4,249	310	22,244
Secured by nonfarm, nonresidential properties	88,799	1,071	20,167	516	110,553
Other real estate secured	16,313	—	3,482	673	20,468
Commercial and industrial loans	23,860	23	14,230	1,406	39,519
Consumer loans	—	—	—	—	—
Other loans	13,361	—	5,665	162	19,188
Total noncovered loans	174,586	1,267	55,693	3,389	234,935
Covered Loans: (1)					
Loans secured by real estate:					
Construction, land development and other land	—	—	—	—	—
Secured by 1-4 family residential properties	185	12	60	—	257
Secured by nonfarm, nonresidential properties	—	—	—	—	—
Other real estate secured	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—
Other loans	—	—	—	—	—
Total covered loans	185	12	60	—	257
Total acquired loans	$174,771	$ 1,279	$ 55,753	$ 3,389	$235,192

	Consumer Loans					
		Past Due	Past Due			Total
	Current	30-89 Days	90 Days or More	Nonaccrual (2)	Subtotal	Acquired Loans
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land	$2,066	$ 3	$ 8	$ —	$2,077	$ 25,040
Secured by 1-4 family residential properties	47,666	1,783	902	94	50,445	72,689
Secured by nonfarm, nonresidential properties	53	—	—	—	53	110,606
Other real estate secured	435	—	—	—	435	20,903
Commercial and industrial loans	—	—	—	—	—	39,519
Consumer loans	3,825	48	5	—	3,878	3,878
Other loans	2	—	—	—	2	19,190
Total noncovered loans	54,047	1,834	915	94	56,890	291,825
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land	—	—	—	—	—	—
Secured by 1-4 family residential properties	3,311	136	208	—	3,655	3,912
Secured by nonfarm, nonresidential properties	—	—	—	—	—	—
Other real estate secured	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total covered loans	3,311	136	208	—	3,655	3,912
Total acquired loans	$57,358	$ 1,970	$ 1,123	$ 94	$60,545	$ 295,737

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC. TNB is at risk for only 20% of the losses incurred on these loans.
(2) Acquired loans not accounted for under FASB ASC Topic 310-30.

	December 31, 2015				
	Commercial Loans				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Noncovered Loans:					
Loans secured by real estate:					
Construction, land development and other land	$15,839	$ 253	$ 19,252	$ 3,874	$39,218
Secured by 1-4 family residential properties	22,272	27	5,033	331	27,663
Secured by nonfarm, nonresidential properties	106,924	2,301	25,690	711	135,626
Other real estate secured	19,346	—	3,777	731	23,854
Commercial and industrial loans	36,670	844	15,526	2,035	55,075
Consumer loans	—	—	—	—	—
Other loans	17,150	—	6,624	162	23,936
Total noncovered loans	218,201	3,425	75,902	7,844	305,372
Covered Loans: (1)					
Loans secured by real estate:					
Construction, land development and other land	235	—	588	119	942
Secured by 1-4 family residential properties	869	107	534	—	1,510
Secured by nonfarm, nonresidential properties	4,060	35	472	—	4,567
Other real estate secured	730	—	111	—	841
Commercial and industrial loans	560	22	42	—	624
Other loans	70	—	—	—	70
Total covered loans	6,524	164	1,747	119	8,554
Total acquired loans	$224,725	$ 3,589	$ 77,649	$ 7,963	$313,926

	Consumer Loans					
		Past Due	Past Due			Total
	Current	30-89 Days	90 Days or More	Nonaccrual (2)	Subtotal	Acquired Loans
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land	$2,353	$24	$ 28	$ —	$2,405	$ 41,623
Secured by 1-4 family residential properties	56,371	1,841	930	145	59,287	86,950
Secured by nonfarm, nonresidential properties	—	—	—	—	—	135,626
Other real estate secured	6	—	—	—	6	23,860
Commercial and industrial loans	—	—	—	—	—	55,075
Consumer loans	5,498	142	1	—	5,641	5,641
Other loans	—	—	—	—	—	23,936
Total noncovered loans	64,228	2,007	959	145	67,339	372,711
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land	70	9	—	—	79	1,021
Secured by 1-4 family residential properties	7,472	314	762	—	8,548	10,058
Secured by nonfarm, nonresidential properties	71	—	—	—	71	4,638
Other real estate secured	445	—	—	—	445	1,286
Commercial and industrial loans	—	—	—	—	—	624
Other loans	3	—	—	—	3	73
Total covered loans	8,061	323	762	—	9,146	17,700
Total acquired loans	$72,289	$2,330	$ 1,721	$ 145	$76,485	$ 390,411

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC. TNB is at risk for only 20% of the losses incurred on these loans.
(2) Acquired loans not accounted for under FASB ASC Topic 310-30.

At September 30, 2016 and December 31, 2015, there were no acquired impaired loans accounted for under FASB ASC Topic 310-30 classified as nonaccrual loans. At September 30, 2016, approximately $653 thousand of acquired loans not accounted for under FASB ASC Topic 310-30 were classified as nonaccrual loans, compared to approximately $1.0 million of acquired loans at December 31, 2015.

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The following tables provide an aging analysis of contractually past due and nonaccrual acquired loans, by loan type at September 30, 2016 and December 31, 2015 ($ in thousands):

	September 30, 2016						
	Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)	Total	Nonaccrual (2)	Current Loans	Total Acquired Loans
Noncovered loans:							
Loans secured by real estate:							
Construction, land development and other land	$203	$12	$ 889	$1,104	$ —	$23,936	$ 25,040
Secured by 1-4 family residential properties	1,679	333	934	2,946	112	69,631	72,689
Secured by nonfarm, nonresidential properties	225	32	857	1,114	338	109,154	110,606
Other real estate secured	112	—	1,458	1,570	—	19,333	20,903
Commercial and industrial loans	832	33	1	866	203	38,450	39,519
Consumer loans	48	—	5	53	—	3,825	3,878
Other loans	—	—	—	—	—	19,190	19,190
Total noncovered loans	3,099	410	4,144	7,653	653	283,519	291,825
Covered loans:							
Loans secured by real estate:							
Construction, land development and other land	—	—	—	—	—	—	—
Secured by 1-4 family residential properties	55	81	208	344	—	3,568	3,912
Secured by nonfarm, nonresidential properties	—	—	—	—	—	—	—
Other real estate secured	—	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	—	—
Other loans	—	—	—	—	—	—	—
Total covered loans	55	81	208	344	—	3,568	3,912
Total acquired loans	$3,154	$491	$ 4,352	$7,997	$ 653	$287,087	$ 295,737

(1) Past due 90 days or more but still accruing interest.
(2) Acquired loans not accounted for under FASB ASC Topic 310-30.

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	December 31, 2015						
	Past Due						
			90 Days			Current	Total Acquired
	30-59 Days	60-89 Days	or More (1)	Total	Nonaccrual (2)	Loans	Loans
Noncovered loans:							
Loans secured by real estate:							
Construction, land development and other land	$24	$ 114	$ 13,021	$13,159	$ —	$28,464	$ 41,623
Secured by 1-4 family residential properties	1,544	636	1,220	3,400	387	83,163	86,950
Secured by nonfarm, nonresidential properties	192	195	5,913	6,300	144	129,182	135,626
Other real estate secured	9	—	737	746	—	23,114	23,860
Commercial and industrial loans	82	4	184	270	429	54,376	55,075
Consumer loans	119	23	1	143	—	5,498	5,641
Other loans	85	16	—	101	—	23,835	23,936
Total noncovered loans	2,055	988	21,076	24,119	960	347,632	372,711
Covered loans:							
Loans secured by real estate:							
Construction, land development and other land	9	—	119	128	—	893	1,021
Secured by 1-4 family residential properties	428	132	978	1,538	—	8,520	10,058
Secured by nonfarm, nonresidential properties	167	478	—	645	—	3,993	4,638
Other real estate secured	—	—	—	—	—	1,286	1,286
Commercial and industrial loans	—	—	—	—	51	573	624
Other loans	—	—	—	—	—	73	73
Total covered loans	604	610	1,097	2,311	51	15,338	17,700
Total acquired loans	$2,659	$ 1,598	$ 22,173	$26,430	$ 1,011	$362,970	$ 390,411

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

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

Note 5 – Mortgage Banking

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,	
	2016	2015
Balance at beginning of period	$74,007	$64,358
Origination of servicing assets	12,392	13,320
Change in fair value:		
Due to market changes	(13,518)	(433)
Due to run-off	(7,367)	(7,436)
Balance at end of period	$65,514	$69,809

During the first nine months of 2016 and 2015, Trustmark sold $1.016 billion and $930.5 million, respectively, of residential mortgage loans. Pretax gains on these sales were recorded to noninterest income in mortgage banking, net and totaled $14.5 million for the first nine months of 2016 compared to $13.3 million for the first nine months of 2015. The table below details the mortgage loans sold and serviced for others at September 30, 2016 and December 31, 2015 ($ in thousands):

	September 30, 2016	December 31, 2015
Federal National Mortgage Association	$3,933,746	$3,750,685
Government National Mortgage Association	2,238,400	2,111,797
Federal Home Loan Mortgage Corporation	58,236	67,817
Other	34,214	41,013
Total mortgage loans sold and serviced for others	$6,264,596	$5,971,312

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. Effective January 1, 2013, Trustmark was 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 incurred by Trustmark during the first nine months of 2016 were $315 thousand compared to $210 thousand during the same time period in 2015.

Changes in the reserve for mortgage loan servicing putback expense for mortgage loans delivered to FNMA in periods not covered by the November 2013 Resolution Agreement between Trustmark and FNMA and to other entities were as follows for the periods presented ($ in thousands):

	Nine Months Ended September 30,	
	2016	2015
Balance at beginning of period	$1,685	$1,170
Provision for putback expenses	315	210
(Losses) gains	(944)	211
Balance at end of period	$1,056	$1,591

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 6 –Other Real Estate and Covered Other Real Estate

Other Real Estate, excluding Covered Other Real Estate

At September 30, 2016, 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, excluding covered other real estate, is susceptible to changes in market conditions in these areas.

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

	Nine Months Ended September 30,	
	2016	2015
Balance at beginning of period	$77,177	$92,509
Additions	21,972	26,832
Disposals	(30,494)	(33,015)
Write-downs	(3,662)	(2,371)
Balance at end of period	$64,993	$83,955
Gain, net on the sale of other real estate included in other real estate expense	$5,350	$2,116

At September 30, 2016 and December 31, 2015, other real estate, excluding covered other real estate, by type of property consisted of the following ($ in thousands):

	September 30, 2016	December 31, 2015
Construction, land development and other land properties	$ 38,345	$ 47,550
1-4 family residential properties	8,037	10,732
Nonfarm, nonresidential properties	18,611	16,717
Other real estate properties	—	2,178
Total other real estate, excluding covered other real estate	$ 64,993	$ 77,177

At September 30, 2016 and December 31, 2015, other real estate, excluding covered other real estate, by geographic location consisted of the following ($ in thousands):

	September 30, 2016	December 31, 2015
Alabama	$ 15,574	$ 21,578
Florida	25,147	29,579
Mississippi (1)	16,659	14,312
Tennessee (2)	6,061	9,974
Texas	1,552	1,734
Total other real estate, excluding covered other real estate	$ 64,993	$ 77,177

(1) Mississippi includes Central and Southern Mississippi Regions
(2) Tennessee includes Memphis, Tennessee and Northern Mississippi Regions

Covered Other Real Estate

On July 1, 2016, $388 thousand of covered other real estate was transferred to other real estate, excluding covered other real estate, as a result of the expiration of a loss-share agreement with the FDIC on June 30, 2016. As of September 30, 2016, Trustmark had no covered other real estate. The remaining loss-share agreement with the 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.

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

	Nine Months Ended September 30,	
	2016	2015
Balance at beginning of period	$1,651	$6,060
Transfers from covered loans	456	266
FASB ASC 310-30 adjustment for the residual recorded investment	(12)	(902)
Net transfers from covered loans	444	(636)
Disposals	(1,679)	(1,404)
Transfers to noncovered other real estate	(388)	—
Write-downs	(28)	(1,155)
Balance at end of period	$—	$2,865
Gain (loss), net on the sale of covered other real estate included in other real estate expense	$801	$(54)

At September 30, 2016 and December 31, 2015, covered other real estate by type of property consisted of the following ($ in thousands):

	September 30, 2016	December 31, 2015
Construction, land development and other land properties	$ —	$ 638
1-4 family residential properties	—	223
Nonfarm, nonresidential properties	—	399
Other real estate properties	—	391
Total covered other real estate	$ —	$ 1,651

Note 7 – Deposits

At September 30, 2016 and December 31, 2015, deposits consisted of the following ($ in thousands):

	September 30, 2016	December 31, 2015
Noninterest-bearing demand	$3,111,603	$2,998,694
Interest-bearing demand	1,783,655	1,938,497
Savings	3,133,286	2,970,997
Time	1,657,157	1,680,042
Total	$9,685,701	$9,588,230

Note 8 – 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. 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, 2016, 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, 2016 and December 31, 2015 ($ in thousands):

	September 30, 2016	December 31, 2015
U.S. Government agency obligations		
Issued by U.S. Government sponsored agencies	$—	$22,516
Mortgage-backed securities		
Other residential mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	122,865	102,604
Commercial mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	41,067	—
Total securities sold under repurchase agreements	$163,932	$125,120

Note 9 – Defined Benefit and Other Postretirement Benefits

Qualified Pension Plans

Trustmark maintains a noncontributory tax-qualified defined benefit pension plan (Trustmark Capital Accumulation Plan, the "Plan"), in which substantially all associates who began employment prior to 2007 participate. The Plan provides retirement benefits that are based on the length of credited service and final average compensation, as defined in the Plan, and vest upon three years of service. Benefit accruals under the plan have been frozen since 2009, with the exception of certain associates covered through plans obtained in acquisitions that were subsequently merged into the Plan. Other than the associates covered through these acquired plans that were merged into the Plan, associates have not earned additional benefits, except for interest as required by law, since the Plan was frozen. Current and former associates who participate in the Plan retain their right to receive benefits that accrued before the Plan was frozen.

On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan, effective as of December 31, 2016. To satisfy commitments made by Trustmark to associates (collectively, the "Continuing Associates") covered through acquired plans that were merged into the Plan, the Board 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 "Spin-Off Plan"), effective as of December 31, 2016, immediately prior to the termination of the Plan.

In order to terminate the Plan, in accordance with Internal Revenue Service and Pension Benefit Guaranty Corporation requirements, Trustmark is required to fully fund the Plan on a termination basis and will contribute the additional assets necessary to do so. The final distributions will be made from current plan assets and a one-time pension settlement expense will be recognized when paid by Trustmark during the second quarter of 2017. Further, as a result of Trustmark's de-risking investment strategy for the Plan as of June 30, 2016, the expected rate of return on plan assets during the second half of 2016 will decrease from 6.0% to 2.5%. Accordingly, Trustmark's increased periodic benefit costs for the Plan during the third quarter of 2016 was $664 thousand. Participants in the Plan will have a choice of receiving a lump sum cash payment or annuity payments under a group annuity contract purchased from an insurance carrier, subject to certain exceptions. As a result of the termination of the Plan, each participant will become fully vested in his or her accrued benefits under the Plan.

The Board reserved the right to defer or revoke the termination of the Plan if circumstances change such that deferral or revocation would be warranted, but has no intent to do so at this time.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	$106	$127	$322	$387
Interest cost	847	867	2,507	2,593
Expected return on plan assets	(426)	(1,297)	(2,470)	(3,890)
Recognized net loss due to lump sum settlements	463	603	3,134	1,499
Recognized net actuarial loss	714	969	2,035	2,907
Net periodic benefit cost	$1,704	$1,269	$5,528	$3,496

The range of potential contributions to the Plan is determined annually by the Plan's actuary in accordance with applicable IRS rules and regulations. Trustmark's policy is to fund amounts that are sufficient to satisfy the annual minimum funding requirements and do not exceed the maximum that is deductible for federal income tax purposes. The actual amount of the contribution is determined annually based on the Plan's funded status and return on plan assets as of the measurement date, which is December 31. For the plan year ending December 31, 2016, Trustmark's minimum required contribution to the Plan is expected to be zero; however, Management and the Board of Directors of Trustmark will monitor the Plan throughout 2016 to determine any additional funding requirements by the Plan's measurement date.

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 the BancTrust merger on February 15, 2013, Trustmark became the administrator of an additional nonqualified supplemental retirement plan, 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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	$73	$107	$221	$323
Interest cost	542	520	1,630	1,563
Amortization of prior service cost	63	63	188	188
Recognized net actuarial loss	214	246	649	745
Net periodic benefit cost	$892	$936	$2,688	$2,819

Note 10 – 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 compared to a defined peer group. 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 table summarizes the Stock Plan activity for the periods presented:

	Three Months Ended September 30, 2016	
	Performance Awards	Time-Vested Awards
Nonvested shares, beginning of period	239,006	327,197
Granted	—	2,000
Released from restriction	(1,587)	(3,379)
Forfeited	(283)	(917)
Nonvested shares, end of period	237,136	324,901

	Nine Months Ended September 30, 2016	
	Performance Awards	Time-Vested Awards
Nonvested shares, beginning of period	212,309	306,657
Granted	99,116	139,291
Released from restriction	(40,888)	(105,717)
Forfeited	(33,401)	(15,330)
Nonvested shares, end of period	237,136	324,901

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Performance awards	$382	$319	$789	$883
Time-vested awards	559	638	1,952	1,855
Total compensation expense	$941	$957	$2,741	$2,738

Note 11 – 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. These amounts are not material to Trustmark's financial statements.

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 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 assessed creditworthiness of the borrower. At September 30, 2016 and 2015, Trustmark had unused commitments to extend credit of $3.110 billion and $2.724 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 essentially the same policies regarding credit risk and collateral, which are followed in the lending process. At September 30, 2016 and 2015, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was $113.5 million and $132.2 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, 2016 and 2015, the fair value of collateral held was $27.7 million and $31.7 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 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.

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 April 11, 2016 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.

TNB has been named as a defendant in two separately filed but now consolidated lawsuits involving two testamentary trusts created in the will of Kathleen Killebrew Paine for her two children, Carolyn Paine Davis and W.K. Paine. TNB is named as the Trustee in both trusts. The lawsuits were filed on June 30, 2014 in the Chancery Court of the First Judicial District of Hinds County, Mississippi by Jennifer Davis Michael, Elizabeth Paine Lindigrin, Wilmer Harrison Paine, Kenneth Whitworth Paine, Robert Harvey Paine and Nathan Davis, who are all children of Mrs. Davis and Mr. Paine. The complaints allege that the plaintiffs are vested current beneficiaries of the respective trusts; that the plaintiffs should have been entitled to be considered for distributions of trust income; and that the interests of Mrs. Davis and Mr. Paine were favored over plaintiffs' interest in both the distribution of income and in the making of trust investments. Plaintiffs seek compensatory damages, refund of trust fees and sweep fees, punitive damages, attorneys' fees and pre- and post-judgment interest. On March 9, 2015, the court granted TNB's motion to add Mrs. Davis and Mr. W.K. Paine as cross-defendants. Following a bench trial that concluded on January 20, 2016, the judge ordered the parties to enter into mandatory mediation. On February 22, 2016, the mediator reported to the judge that the mediation had failed to resolve the matter. All post-trial briefings have been completed by the parties and submitted to the court. The judge will consider those submissions and then enter a ruling on the case at some point in the future.

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 both probable and reasonably estimable.

Note 12 – 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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic shares	67,625	67,557	67,618	67,547
Dilutive shares	168	150	153	130
Diluted shares	67,793	67,707	67,771	67,677

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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted-average antidilutive stock awards	—	1	2	1

Note 13 – Statements of Cash Flows

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

	Nine Months Ended September 30,	
	2016	2015
Income taxes paid	$24,646	$15,291
Interest expense paid on deposits and borrowings	17,132	14,639
Noncash transfers from loans to other real estate (1)	21,972	26,196

(1) Includes transfers from covered loans to covered other real estate.

Note 14 – 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 2015 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. Effective January 1, 2016, Trustmark's and TNB's minimum risk-based capital requirements include the year-one phased in capital conservation buffer of 0.625%. 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, 2016, 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, 2016. 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, 2016, which Management believes have affected Trustmark's or TNB's present classification.

The following table provides Trustmark's and TNB's actual regulatory capital amounts and ratios under regulatory capital standards in effect at September 30, 2016 and December 31, 2015 ($ in thousands):

	Actual Regulatory Capital Amount	Ratio	Minimum Requirement	To Be Well Capitalized
At September 30, 2016:				
Common Equity Tier 1 Capital (to Risk Weighted Assets)				
Trustmark Corporation	$1,194,729	12.35%	5.125%	n/a
Trustmark National Bank	1,235,923	12.78%	5.125%	6.50%
Tier 1 Capital (to Risk Weighted Assets)				
Trustmark Corporation	$1,254,453	12.97%	6.625%	n/a
Trustmark National Bank	1,235,923	12.78%	6.625%	8.00%
Total Capital (to Risk Weighted Assets)				
Trustmark Corporation	$1,336,704	13.82%	8.625%	n/a
Trustmark National Bank	1,318,174	13.63%	8.625%	10.00%
Tier 1 Leverage (to Average Assets)				
Trustmark Corporation	$1,254,453	9.92%	4.00%	n/a
Trustmark National Bank	1,235,923	9.79%	4.00%	5.00%
At December 31, 2015:				
Common Equity Tier 1 Capital (to Risk Weighted Assets)				
Trustmark Corporation	$1,161,598	12.57%	4.50%	n/a
Trustmark National Bank	1,201,113	13.00%	4.50%	6.50%
Tier 1 Capital (to Risk Weighted Assets)				
Trustmark Corporation	$1,220,535	13.21%	6.00%	n/a
Trustmark National Bank	1,201,113	13.00%	6.00%	8.00%
Total Capital (to Risk Weighted Assets)				
Trustmark Corporation	$1,300,146	14.07%	8.00%	n/a
Trustmark National Bank	1,280,724	13.86%	8.00%	10.00%
Tier 1 Leverage (to Average Assets)				
Trustmark Corporation	$1,220,535	10.03%	4.00%	n/a
Trustmark National Bank	1,201,113	9.89%	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 did not repurchase any shares of its common stock during the three months ended September 30, 2016. Trustmark repurchased approximately 34 thousand shares of its common stock during the nine months ended September 30, 2016.

Other Comprehensive Income and Accumulated Other Comprehensive Loss

The following table presents the components of accumulated other comprehensive loss and the related tax effects allocated to each component for the three and nine months ended September 30, 2016 and 2015 ($ in thousands). Reclassification adjustments related to securities available for sale are included in security losses, net in the accompanying consolidated statements of income. The amortization of prior service cost, recognized net loss due to lump sum settlements and change in net actuarial loss on pension and other postretirement benefit plans are included in the computation of net periodic benefit cost (see Note 9 – 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 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, 2016			Three Months Ended September 30, 2015		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Securities available for sale and transferred securities:						
Unrealized holding (losses) gains arising during the period	$(12,657)	$ 4,841	$(7,816)	$17,872	$ (6,837)	$11,035
Reclassification adjustment for net losses realized in net income	—	—	—	—	—	—
Change in net unrealized holding loss on securities transferred to held to maturity	2,677	(1,024)				