

TRUSTMARK CORP
Form 10-K
February 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2016

or

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

Commission file number 000-3683

TRUSTMARK CORPORATION

(Exact name of Registrant as specified in its charter)

MISSISSIPPI 64-0471500
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

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

Registrant's telephone number, including area code: (601) 208-5111

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value NASDAQ Stock Market
(Title of Class) (Name of Exchange on Which Registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Edgar Filing: TRUSTMARK CORP - Form 10-K

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Act.) Yes No

Based on the closing sales price at June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by nonaffiliates of the registrant was approximately \$1.189 billion.

As of February 9, 2017, there were issued and outstanding 67,688,126 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Trustmark's 2016 Annual Meeting of Shareholders to be held April 25, 2017 are incorporated by reference into Part III of the Form 10-K report.

TRUSTMARK CORPORATION

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	PAGE
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item	
1A. <u>Risk Factors</u>	17
Item	
1B. <u>Unresolved Staff Comments</u>	26
Item 2. <u>Properties</u>	26
Item 3. <u>Legal Proceedings</u>	26
Item 4. <u>Mine Safety Disclosures</u>	28
<u>PART II</u>	
Item 5. <u>Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
Item 6. <u>Selected Financial Data</u>	30
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item	
7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	74
Item 8. <u>Financial Statements and Supplementary Data</u>	77
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	151
Item	
9A. <u>Controls and Procedures</u>	151
Item	
9B. <u>Other Information</u>	151
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers of the Registrant and Corporate Governance</u>	152
Item 11. <u>Executive Compensation</u>	152
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	152
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	152
Item 14. <u>Principal Accounting Fees and Services</u>	152
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	153
Item 16. <u>Summary</u>	153
<u>SIGNATURES</u>	156

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “could,” “future” or the negative of those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements include, but are not limited to, statements relating to anticipated future operating and financial performance measures, including net interest margin, credit quality, business initiatives, growth opportunities and growth rates, among other things, and encompass any estimate, prediction, expectation, projection, opinion, anticipation, outlook or statement of belief included therein as well as the management assumptions underlying these forward-looking statements. You should be aware that the occurrence of the events described under the caption Item 1A. Risk Factors in this report 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

ITEM 1. BUSINESS

The Corporation

Description of Business

Trustmark Corporation (Trustmark), a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark's principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At December 31, 2016, TNB had total assets of \$13.350 billion, which represented approximately 99.99% of the consolidated assets of Trustmark.

3

Through TNB and its subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through 193 offices and 2,788 full-time equivalent associates (measured at December 31, 2016) located in the states of Alabama (primarily in the central and southern regions of that state, which are collectively referred to herein as Trustmark's Alabama market), Florida (primarily in the northwest or "Panhandle" region of that state, which is referred to herein as Trustmark's Florida market), Mississippi, Tennessee (in Memphis and the Northern Mississippi regions, which are collectively referred to herein as Trustmark's Tennessee market), and Texas (primarily in Houston, which is referred to herein as Trustmark's Texas market). The principal products produced and services rendered by TNB and Trustmark's other subsidiaries are as follows:

Trustmark National Bank

Commercial Banking – TNB provides a full range of commercial banking services to corporations and other business customers. Loans are provided for a variety of general corporate purposes, including financing for commercial and industrial projects, income producing commercial real estate, owner-occupied real estate and construction and land development. TNB also provides deposit services, including checking, savings and money market accounts and certificates of deposit as well as treasury management services.

Consumer Banking – TNB provides banking services to consumers, including checking, savings, and money market accounts as well as certificates of deposit and individual retirement accounts. In addition, TNB provides consumer customers with installment and real estate loans and lines of credit.

Mortgage Banking – TNB provides mortgage banking services, including construction financing, production of conventional and government insured mortgages, secondary marketing and mortgage servicing.

Insurance – TNB provides a competitive array of insurance solutions for business and individual risk management needs. Business insurance offerings include services and specialized products for medical professionals, construction, manufacturing, hospitality, real estate and group life and health plans. Individual customers are also provided life and health insurance, and personal line policies. TNB provides these services through Fisher Brown Bottrell Insurance, Inc. (FBBI), a Mississippi corporation and a wholly-owned subsidiary of TNB, which is based in Jackson, Mississippi.

Wealth Management and Trust Services – TNB offers specialized services and expertise in the areas of wealth management, trust, investment and custodial services for corporate and individual customers. These services include the administration of personal trusts and estates as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. TNB also provides corporate trust and institutional custody, securities brokerage, financial and estate planning and retirement plan services. TNB's wealth management division is also assisted by Trustmark Investment Advisors, Inc. (TIA), a Securities and Exchange Commission (SEC)-registered investment adviser and a wholly-owned subsidiary of TNB. TIA provides customized investment management services to TNB's Wealth Management Division, which in turns relies upon that advice to provide investment management services to TNB's wealth management customers.

New Market Tax Credits (NMTC) – TNB provides an intermediary vehicle for the provision of loans or investments in Low-Income Communities (LICs) through its subsidiary Southern Community Capital, LLC (SCC). SCC is a Mississippi single member limited liability company, a certified Community Development Entity (CDE) and a wholly-owned subsidiary of TNB. The primary mission of SCC is to provide investment capital for LICs, as defined by Section 45D of the Internal Revenue Code, or for Low-Income Persons (LIPs). As a certified CDE, SCC is able to apply to the Community Development Financial Institutions Fund (CDFI Fund) to receive NMTC allocations to offer investors in exchange for equity investments in qualified projects.

Capital Trust

Trustmark Preferred Capital Trust I (the Trust) is a Delaware trust affiliate and a wholly-owned subsidiary of Trustmark formed in 2006 to facilitate a private placement of \$60.0 million in trust preferred securities. As defined in applicable accounting standards, the Trust is considered a variable interest entity for which Trustmark is not the primary beneficiary. Accordingly, the accounts of the Trust are not included in Trustmark's consolidated financial statements.

Strategy

Trustmark seeks to be a premier diversified financial services company in its markets, providing a broad range of banking, wealth management and insurance solutions to its customers. Trustmark's products and services are designed to strengthen and expand customer relationships and enhance the organization's competitive advantages in its markets as well as to provide cross-selling opportunities that will enable Trustmark to continue to diversify its revenue and earnings streams.

Edgar Filing: TRUSTMARK CORP - Form 10-K

The following table sets forth summary data regarding Trustmark's securities, loans, assets, deposits, equity and revenue over the past five years (\$ in thousands). Summary information at and for the year ended December 31, 2013, and each year thereafter, include the results of the merger with BancTrust Financial Group, Inc. (BancTrust) on February 15, 2013.

December 31,	2016	2015	2014	2013	2012
Securities	\$3,515,325	\$3,533,240	\$3,545,252	\$3,362,882	\$2,699,933
Total securities growth (decline)	\$(17,915)	\$(12,012)	\$182,370	\$662,949	\$173,235
Total securities growth (decline)	-0.51	% -0.34	% 5.42	% 24.55	% 6.86
Loans *	\$8,123,460	\$7,481,796	\$6,998,878	\$6,603,087	\$5,726,318
Total loans growth (decline)	\$641,664	\$482,918	\$395,791	\$876,769	\$(207,970)
Total loans growth (decline)	8.58	% 6.90	% 5.99	% 15.31	% -3.50
Assets	\$13,352,333	\$12,678,896	\$12,250,633	\$11,790,383	\$9,828,667
Total assets growth	\$673,437	\$428,263	\$460,250	\$1,961,716	\$101,660
Total assets growth	5.31	% 3.50	% 3.90	% 19.96	% 1.05
Deposits	\$10,056,012	\$9,588,230	\$9,698,358	\$9,859,902	\$7,896,517
Total deposits growth (decline)	\$467,782	\$(110,128)	\$(161,544)	\$1,963,385	\$330,154
Total deposits growth (decline)	4.88	% -1.14	% -1.64	% 24.86	% 4.36
Equity	\$1,520,208	\$1,473,057	\$1,419,940	\$1,354,953	\$1,287,369
Total equity growth	\$47,151	\$53,117	\$64,987	\$67,584	\$72,332
Total equity growth	3.20	% 3.74	% 4.80	% 5.25	% 5.95
Years Ended December 31,					
Revenue **	\$561,476	\$564,914	\$578,478	\$562,346	\$516,179
Total revenue growth (decline)	\$(3,438)	\$(13,564)	\$16,132	\$46,167	\$7,382
Total revenue growth (decline)	-0.61	% -2.34	% 2.87	% 8.94	% 1.45

*Includes loans held for investment and acquired loans

**Consistent with Trustmark's audited financial statements, revenue is defined as net interest income plus noninterest income

For additional information regarding the general development of Trustmark's business, see Part II. Item 6. – Selected Financial Data and Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations – of this report.

Geographic Information

The following table shows Trustmark's percentage of loans, deposits and revenue for each of the geographic regions in which it operates as of and for the year ended December 31, 2016 (\$ in thousands):

	Loans (1)		Deposits		Revenue (2)	
	Amount	%	Amount	%	Amount	%
Alabama	\$1,060,710	13.0 %	\$1,351,529	13.4 %	\$66,063	11.8 %

Edgar Filing: TRUSTMARK CORP - Form 10-K

Florida	380,147	4.7 %	612,589	6.1 %	42,496	7.6 %
Mississippi	4,555,542	56.1 %	6,316,714	62.8 %	363,796	64.8 %
Tennessee	739,230	9.1 %	1,307,743	13.0 %	42,638	7.5 %
Texas	1,387,831	17.1 %	467,437	4.7 %	46,483	8.3 %
Total	\$8,123,460	100.0%	\$10,056,012	100.0%	\$561,476	100.0%

(1) Includes loans held for investment and acquired loans

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

5

Segment Information

For the year ended December 31, 2016, Trustmark operated through three operating segments: General Banking Division, Insurance Division and Wealth Management Division. The table below presents a summary of segment financial data for each segment for the last three years (\$ in thousands):

	Years Ended December 31,		
	2016	2015	2014
General Banking			
Net interest income	\$386,596	\$391,092	\$404,214
Provision for loan losses, net	14,714	11,800	7,382
Noninterest income	107,059	105,477	107,457
Net income	99,083	106,738	114,870
Average assets	12,872,123	12,196,144	11,957,761
Wealth Management			
Net interest income	\$726	\$337	\$851
Noninterest income	30,117	31,245	32,209
Net income	4,124	3,850	4,222
Average assets	6,087	4,034	1,821
Insurance			
Net interest income	\$211	\$336	\$271
Noninterest income	36,767	36,427	33,476
Net income	5,204	5,450	4,470
Average assets	59,810	70,017	68,448

For more information on Trustmark's operating segments, please see the section captioned "Results of Segment Operations" in Part II. Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 21 - Segment Information included in Part II. Item 8. - Financial Statements and Supplementary Data – of this report.

Overview of Lending Business

Trustmark categorizes loans on its balance sheet into four categories. These categories are described in more detail in Note 1 – Significant Accounting Policies included in Part II. Item 8. - Financial Statements and Supplementary Data – of this report.

• **Loans Held for Investment (LHFI)** – Loans originally underwritten by Trustmark that do not constitute loans held for sale, acquired loans or covered loans.

• **Loans Held for Sale (LHFS)** – Mortgage loans purchased from wholesale customers or originated in Trustmark's General Banking Division, other than mortgage loans that are retained in the LHFI portfolio based on banking relationships or certain investment strategies.

• **Acquired Loans** – Loans acquired by Trustmark, either pursuant to the acquisition of another bank or pursuant to an acquisition of some or all of another bank's loan portfolio.

• **Covered Loans** – Acquired loans that Trustmark acquired in a Federal Deposit Insurance Corporation (FDIC)-assisted transaction and that are covered under a loss-share agreement with the FDIC.

The following discussion briefly summarizes Trustmark's lending business by focusing on LHFI and LHFS, and includes a discussion of the risks inherent in these loans, Trustmark's underwriting policies for its loans and the characteristics of the real estate loan component of these loans. Acquired loans and covered loans are excluded from

this summary, as Trustmark did not underwrite those loans at inception. Discussion of Trustmark's acquired loans, including covered loans, is contained elsewhere in this report.

As a general matter, extending credit to businesses and consumers exposes Trustmark to credit risk, which is the risk that the principal balance and any related interest may not be collected according to the original terms due to the inability or unwillingness of the borrower to repay the loan. Trustmark mitigates credit risk through a set of internal controls, which includes adherence to conservative lending practices and underwriting guidelines, collateral monitoring, and oversight of its borrower's financial performance and collateral. The risks inherent in specific subsets of lending are discussed below.

LHFI Secured by Construction, Land Development, and Other Land – Construction and land development loans include loans for both commercial and residential properties to builders/developers and to consumers. This category also includes loans secured by vacant

land, except land known to be used or usable for agricultural purposes, such as crop and livestock production. Repayment is normally derived from the sale of the underlying property or from permanent financing, which refinances Trustmark's initial loan. Trustmark's engagement in this type of lending is generally extended to those builders and developers exhibiting the highest credit quality with significant equity invested in the project and is primarily restricted to projects within its geographic markets. The underwriting process for these loans includes analysis of the financial position and strength of both the borrower and guarantor, experience with similar projects in the past, market demand and prospects for successful completion of the proposed project within the established budget and schedule, values of underlying collateral and availability of permanent financing. Risk within this portfolio is mitigated through adherence to policies and lending limits, periodic target credit reviews of the different segments of this portfolio, inspection of projects throughout the life of the loan and routine monitoring of financial information and collateral values as they are updated.

Inherent in real estate construction lending is the risk that the full value of the collateral does not exist at the time the loan is granted. Construction lending also inherently includes the risk associated with a borrower's ability to successfully complete a proposed project on time and within budget. Further, adverse changes in the market occurring between the start of construction and completion of the projects can result in slower sales rates and lower sales prices than originally anticipated which could impact the underlying real estate collateral values and timely and full repayment of these loans. Rising interest rates can adversely affect the cost of construction and the financial viability of real estate projects. Higher interest rates may also result in higher capitalization rates, thereby reducing a property's value. As a result of this risk profile, LHFIs secured by construction, land development and other land are considered to be higher risks than other real estate loans.

LHFI and LHFS Secured by Residential Properties – Residential real estate loans consist of first and junior liens on residential properties that are extended in the geographic markets in which Trustmark operates as well as mortgage products, originated and purchased, that are underwritten to secondary market standards. Credit underwriting standards include verification of income, valuation of collateral and evaluation of the borrower's credit history and repayment capacity. Portfolio performance is continuously evaluated through updated credit bureau scores and monitoring of repayment performance.

Credit performance of consumer residential real estate loans is highly dependent on housing values and household income which, in turn are highly dependent on national, regional and local economic factors. Rising interest rates, rising unemployment rates and other adverse changes in these economies may have a negative effect on the ability of Trustmark's borrowers to repay these loans and negatively affect value of the underlying residential real estate collateral.

LHFI Secured by Nonfarm, Nonresidential Properties – Trustmark provides financing for both owner-occupied commercial real estate as well as income-producing commercial real estate. Trustmark seeks to maintain a balance of owner-occupied and income-producing real estate loans that moderates its risk to the specific risks of each type of loan. Commercial real estate term loans are typically collateralized by liens on real property. Both types of commercial real estate loans are underwritten to lending policies that include maximum loan-to-value ratios, minimum equity requirements, acceptable amortization periods and minimum debt service coverage requirements, based on property type. Income-producing commercial real estate loans also generally require cash equity and are subject to exposure limits for a single project. All exceptions to established guidelines are subject to stringent internal review and require specific approval. As with commercial loans, the borrower's financial strength and capacity to repay their obligations remain the primary focus of underwriting. Financial strength is evaluated based upon analytical tools that consider historical and projected cash flows and performance in addition to analysis of the proposed project for income-producing properties. Additional support offered by guarantors is also considered.

Risk for owner-occupied commercial real estate is driven by the creditworthiness of the underlying borrowers, particularly cash flow from the borrowers' business operations as well as the risk of a shortfall in collateral. Credit performance of loans secured by commercial income-producing real estate can be negatively affected by national,

regional and local economic conditions, which may result in deteriorating tenant credit profiles, tenant losses, reduced rental/lease rates and higher than anticipated vacancy rates, all contributing to declines in value or liquidity of the underlying real estate collateral. Other factors, such as increasing interest rates, may result in higher capitalization rates, thereby reducing a property's value.

Commercial and Industrial LHFI – Commercial loans (other than commercial loans related to real estate assets, which are summarized above) are made to many types of businesses for various purposes, such as short-term working capital loans that are usually secured by accounts receivable and inventory, equipment and fixed asset purchases that are secured by those assets and term financing for those within Trustmark's geographic markets. Trustmark's credit underwriting process for commercial loans includes analysis of historical and projected cash flows and performance, evaluation of financial strength of both borrowers and guarantors as reflected in current and detailed financial information and evaluation of underlying collateral to support the credit. Credit risk within the commercial loan portfolio is managed through adherence to specific commercial lending policies and internally established lending authorities, diversification within the portfolio and monitoring of the portfolio on a continuing basis.

Credit risk in commercial and industrial loans can arise due to fluctuations in borrowers' financial condition, deterioration in collateral values and changes in market conditions. The credit risk inherent in these loans depends on, to a significant degree, the general

economic conditions of these areas. Further, credit risk can increase if Trustmark's loans are concentrated to borrowers engaged in the same or similar activities, or to groups of borrowers who may be uniquely or disproportionately affected by market or economic conditions.

Consumer LHFI – Consumer credit includes loans to individuals for household and personal items, automobile purchases, unsecured loans, personal lines of credit and credit cards. All consumer loans are subject to a standardized underwriting process through Trustmark's consumer loan center, which uses a custom credit scoring model with emphasis placed upon the borrower's credit evaluation and historical performance, income evaluation and valuation of collateral (where applicable). Updated credit bureau scores are obtained on all existing consumer loans/lines on a periodic basis in order to monitor portfolio credit quality changes and mitigate risk.

Similar to residential real estate loan portfolios, an inherent risk factor in consumer loans is that they are dependent on national, regional and local economic factors that affect employment in the markets where these loans are originated. Generally, consumer loan portfolios consist of a large number of relatively small-balance loans, some of which are originated as unsecured credit (credit cards and some personal lines of credit), and as such, do not have collateral as a secondary source of repayment. Consumer loans generally pose heightened risks of collectability and loss when compared to other loan types.

Other LHFI – Other loans primarily consist of loans to non-depository financial institutions, such as mortgage companies, finance companies and other financial intermediaries, loans to state and political subdivisions, and loans to non-profit and charitable organizations. These loans are underwritten based on the specific nature or purpose of the loan and underlying collateral with special consideration given to the specific source of repayment for the loan.

Similar to commercial and industrial loans, inherent risk in other loans can arise due to fluctuations in borrowers' financial condition, deterioration in collateral values and changes in market and economic conditions. Loans to state and political subdivisions have the added inherent risk of being somewhat dependent on the ability and capacity of those entities to generate tax and other revenue to repay the loans. Loans to non-profit and charitable organizations are dependent on those organizations' ability to generate revenue through their fundraising efforts and other forms of financial support, which can be susceptible to economic downturns.

Recent Economic and Industry Developments

The economy showed moderate signs of improvement in 2016; however, economic concerns remain as a result of the cumulative weight of continued soft labor markets in the United States, volatility in crude oil prices, slowing growth in markets in Western Europe, Japan, China, Russia and other emerging markets, combined with uncertainty regarding anticipated further tightening of the monetary policy by the Board of Governors of the Federal Reserve System (FRB), the consequences of the decision of the United Kingdom to exit the European Union, and the recent presidential election. Doubts surrounding the near-term direction of global markets, and the potential impact of these trends on the United States economy, are expected to persist for some time. While Trustmark's customer base is wholly domestic, international economic conditions affect domestic conditions, and thus may have an impact upon Trustmark's financial condition or results of operations.

In the January 2017 "Summary of Commentary on Current Economic Conditions by Federal Reserve Districts," the twelve Federal Reserve Districts' reports suggested national economic activity continued to expand at a modest pace through the end of 2016, and noted increased manufacturing and non-auto retail sales, mixed reports on residential construction and sales as well as growth in the energy industry, improvements in labor markets, stable financial conditions and positive outlooks for growth in 2017. Reports by the three Federal Reserve Districts covering the southeast United States, which include Trustmark's five key market regions, suggested that economic activity increased at a modest pace, with most businesses reporting improved sales and positive outlooks for the near term. The Federal Reserve's Sixth District, Atlanta (which includes Trustmark's Alabama, Florida and Mississippi market regions), reported that economic activity expanded at a modest pace with optimistic outlooks for the first half

of 2017, tightening labor markets and steady wage growth and increased retail and manufacturing sales. The Federal Reserve's Sixth District also reported that construction and sales of residential real estate was slightly higher than one year earlier, sales of existing homes were mixed and commercial real estate demand continued to improve, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The Federal Reserve's Eighth District, St. Louis (which includes Trustmark's Tennessee market region), reported modest expansion in economic conditions, moderate growth in employment and wages, improvements in commercial real estate activity, increased commercial construction and increased loan demand with moderate growth noted across all lending categories. The Federal Reserve's Eleventh District, Dallas (which includes Trustmark's Texas market region), reported economic activity expanded moderately, and noted improvements in manufacturing activity and demand for non-financial services as well as growth in housing demand and commercial leasing activity despite continued weakness in leasing activity in Houston. The Federal Reserve's Eleventh District also reported drilling activity and demand for oil field services improved modestly at the end of 2016 and outlooks for 2017 were more optimistic due to expected increases in oil prices and activity; however, broader uncertainty surrounding regulation and global economic developments remains.

In December 2015, the FRB increased the target range for the federal funds rate for the first time in over seven years. The FRB increased the target range for the federal funds rate again in December 2016, and indicated that it may further increase rates during 2017, depending on economic conditions. It is not possible to predict the timing or amount of any such additional increases. Low interest rates will continue to place pressure on net interest margins for Trustmark (as well as its competitors), as older, higher-yielding assets that mature or default and can only be replaced with lower-yielding instruments and as any increases in interest rates place competitive pressures on the deposit cost of funds.

For additional discussion of the impact of the current economic environment on the financial condition and results of operations of Trustmark and its subsidiaries, see Part II. Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations – of this report.

Competition

There is significant competition within the banking and financial services industry in the markets in which Trustmark operates. Changes in regulation, technology and product delivery systems have resulted in an increasingly competitive environment. Trustmark expects to continue to face increasing competition from online and traditional financial institutions seeking to attract customers by providing access to similar services and products.

Trustmark and its subsidiaries compete with national and state chartered banking institutions of comparable or larger size and resources and with smaller community banking organizations. Trustmark has numerous local, regional and national nonbank competitors, including savings and loan associations, credit unions, mortgage companies, insurance companies, finance companies, financial service operations of major retailers, investment brokerage and financial advisory firms and mutual fund companies. Because nonbank financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Currently, Trustmark does not face meaningful competition from international banks in its markets, although that could change in the future.

At June 30, 2016, Trustmark’s deposit market share ranked within the top three positions in 57% of the 53 counties served and within the top five positions in 74% of the counties served. The table below presents FDIC deposit data regarding TNB’s deposit market share by state as of June 30, 2016. The FDIC deposit market share data presented below does not align with Trustmark’s reported geographic market regions, which in some instances cross state lines, and Trustmark’s geographic coverage within certain states presented below is not statewide (see the sections captioned “Description of Business” and “Geographic Information” above).

State	Deposit Market Share
Alabama	1.37%
Florida	0.12%
Mississippi	13.07%
Tennessee	0.37%
Texas	0.06%

Services provided by the Wealth Management Division face competition from many national, regional and local financial institutions. Companies that offer broad services similar to those provided by Trustmark, such as other banks, trust companies and full service brokerage firms, as well as companies that specialize in particular services offered by Trustmark, such as investment advisors and mutual fund providers, all compete with Trustmark’s Wealth Management Division.

Trustmark's insurance subsidiary faces competition from local, regional and national insurance companies, independent insurance agencies as well as from other financial institutions offering insurance products.

Trustmark's ability to compete effectively is a result of providing customers with desired products and services in a convenient and cost effective manner. Customers for commercial, consumer and mortgage banking as well as wealth management and insurance services are influenced by convenience, quality of service, personal contacts, availability of products and services and competitive pricing. Trustmark continually reviews its products, locations, alternative delivery channels, and pricing strategies to maintain and enhance its competitive position. While Trustmark's position varies by market, Management believes it can compete effectively as a result of the quality of Trustmark's products and services, local market knowledge and awareness of customer needs.

Supervision and Regulation

The following discussion sets forth material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides specific information relevant to Trustmark. The discussion is a summary of detailed statutes, regulations and policies. The descriptions are not intended to be complete summaries of the statutes, regulations and policies referenced therein.

Such statutes, regulations and policies are continually under the review of the United States Congress and state legislatures as well as federal and state regulatory agencies. A change in statutes, regulations or policies could have a material impact on the business of Trustmark and its subsidiaries.

Regulation of Trustmark

Trustmark is a registered bank holding company under the Bank Holding Company Act of 1956 (BHC Act). Trustmark and its nonbank subsidiaries are therefore subject to the supervision, examination and reporting requirements of the BHC Act, the Federal Deposit Insurance Act (FDI Act), the regulations of the FRB and certain of the requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Federal Oversight Over Mergers and Acquisitions, Investments and Branching

The BHC Act requires every bank holding company to obtain the prior approval of the FRB before: (i) it may acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, the bank holding company will directly or indirectly own or control 5.0% or more of the voting shares of the bank; (ii) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or (iii) it may merge or consolidate with any other bank holding company. The BHC Act further provides that the FRB may not approve any such transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The FRB is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the Community Reinvestment Act of 1977.

The BHC Act also generally requires FRB approval for a bank holding company's acquisition of a company that is not an insured depository institution. Bank holding companies generally may engage, directly or indirectly, only in banking and such other activities as are determined by the FRB to be closely related to banking. The FRB must generally consider whether performance of the activity by a bank holding company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. The FRB has express statutory authority to also consider the "risk to the stability of the United States banking or financial system" when reviewing the acquisition of such a company by a bank holding company.

The BHC Act, as amended by the interstate banking provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal Act) permits Trustmark to acquire a bank located in any other state, regardless of state law to the contrary, subject to certain deposit-percentage, aging requirements, and other restrictions. The Riegle-Neal Act also generally permits national and state-chartered banks to branch interstate through acquisitions of banks in other states. Bank holding companies must be well-capitalized and well-managed to obtain federal bank regulatory approval of an interstate acquisition without regard to state law prohibiting the transaction.

Under provisions of the BHC Act referred to as the "Volcker Rule," limitations are placed on the ability of insured depository institutions, insured depository institution holding companies and their affiliates ("Banking Entities") to acquire or retain ownership interests in, or act as sponsor to, certain investment funds, including hedge funds and private equity funds. The Volcker Rule also places restrictions on proprietary trading by a Banking Entity.

The Office of the Comptroller of the Currency (OCC) has the authority to approve applications by national banks to establish de novo branches in states other than the bank's home state if the law of the State in which the branch is located, or is to be located, would permit establishment of the branch if the bank were a State bank chartered by such State.

Source of Strength

Under the FDI Act, Trustmark is expected to act as a source of financial and managerial strength to TNB. Under this policy, a bank holding company is expected to commit resources to support its bank subsidiary, including at times when the holding company may not be in a financial position to provide it.

Capital Adequacy

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal bank regulatory agencies. Capital adequacy regulations and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. United States capital regulations were substantially revised in 2013 as a result of changes in the Dodd-Frank Act and the Basel Committee on Banking Supervision's December 2010 final capital framework, referred to as "Basel III." The FRB and the OCC, the primary regulators of Trustmark and TNB, respectively, have substantially similar risk-based capital ratio and leverage ratio requirements.

Under capital requirements applicable to Trustmark and TNB as of January 1, 2015, Trustmark and TNB are required to meet a common equity Tier 1 capital to risk-weighted assets ratio of 7.0% (a minimum of 4.5% plus a capital conservation buffer of 2.5%, which will be fully phased in by January 1, 2019), a Tier 1 capital to risk-weighted assets ratio of 8.5% (a minimum of 6.0% plus a phased-in capital conservation buffer of 2.5%), a total capital to risk-weighted assets ratio of 10.5% (a minimum of 8% plus a phased-in capital conservation buffer of 2.5%), and a leverage ratio of Tier 1 capital to total consolidated assets of 4.0%. In addition, for an insured depository institution to be "well-capitalized" under the banking agencies' prompt corrective action framework, it must have a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0%, a total capital ratio of 10.0%, and a leverage ratio of 5.0%, and must not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by its primary federal regulator to meet and maintain a specific capital level for any capital measure.

For purposes of calculating the denominator of the risk-based capital ratios, a banking institution's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. For purposes of calculating the numerator of the capital ratios, capital, at both the holding company and bank level, is classified in one of three tiers depending on the "quality" and loss-absorbing features of the capital instrument. Common equity Tier 1 capital is predominantly comprised of common stock instruments (including related surplus) and retained earnings, net of treasury stock, and after making necessary capital deductions and adjustments. Tier 1 capital is comprised of common equity Tier 1 capital and additional Tier 1 capital, which includes non-cumulative perpetual preferred stock and similar instruments meeting specified eligibility criteria (including related surplus) and "TARP" preferred stock and other instruments issued under the Emergency Economic Stabilization Act of 2008. Newly issued trust preferred securities and cumulative perpetual preferred stock may not be included in Tier 1 capital. However, smaller depository institution holding companies (those with assets less than \$15 billion as of year-end 2009) and most mutual holding companies are allowed to continue to count as Tier 1 capital most outstanding trust preferred securities and other non-qualifying securities that were issued prior to May 19, 2010 (up to a limit of 25% of Tier 1 capital, excluding non-qualifying capital instruments) rather than phasing such securities out of regulatory capital. Trustmark currently has outstanding trust preferred securities that is permitted to continue to count as Tier 1 capital up to the regulatory limit. Total capital is comprised of Tier 1 capital and Tier 2 capital, which includes certain subordinated debt with a minimum original maturity of five years (including related surplus) and a limited amount of allowance for loan losses. Newly issued trust preferred securities and cumulative perpetual preferred stock generally may be included in Tier 2 capital, provided they do not include features that are disallowed by the capital rules, such as the acceleration of principal other than in the event of a bankruptcy, insolvency, or receivership of the issuer.

Failure to meet minimum capital requirements could subject a bank to a variety of enforcement remedies. The FDI Act identifies five capital categories for insured depository institutions: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An insured depository institution is subject to differential regulation corresponding to the capital category within which the institution falls. The FDI Act requires banking regulators to take prompt corrective action whenever financial institutions do not meet minimum capital requirements. Failure to meet the capital guidelines could also subject an insured depository institution to capital raising requirements. In addition, an insured depository institution is generally prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company, if the institution would

thereafter be undercapitalized. In addition, the FDI Act requires the various regulatory agencies to prescribe certain noncapital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation, and permits regulatory action against an insured depository institution that does not meet such standards.

An institution's failure to exceed the capital conservation buffer with common equity Tier 1 capital would result in limitations on an institution's ability to make capital distributions and discretionary bonus payments. The capital conservation buffer is being phased in until January 1, 2019.

At December 31, 2016, Trustmark exceeded its minimum capital requirements with common equity Tier 1 capital, Tier 1 capital and total capital equal to 12.16%, 12.76% and 13.59% of its total risk-weighted assets, respectively. At December 31, 2016, TNB also exceeded these requirements with common equity Tier 1 capital, Tier 1 capital and total capital equal to 12.58%, 12.58% and 13.41% of its total risk-weighted assets, respectively. At December 31, 2016, the leverage ratios for Trustmark and TNB were 9.90% and 9.77%, respectively. As of December 31, 2016, the most recent notification from the OCC categorized TNB as well-capitalized based

on the ratios and guidelines described above. Management will continue to evaluate the impact of the capital rules on Trustmark and TNB as they are phased in.

Stress Testing

Bank holding companies and national banks with average total consolidated assets between \$10 billion and \$50 billion must conduct annual company-run stress tests using data as of December 31 of each year under one baseline and at least two stress scenarios as provided by the FRB and the OCC, respectively. Stress test results must be provided to the FRB and OCC by July 31 of the following year. Trustmark has been subject to annual company-run stress test requirements since September 2014.

Trustmark anticipates that capital ratios, as reflected in the stress test calculations under the required stress test scenarios, will be an important factor considered by the agencies in evaluating the capital adequacy of Trustmark and TNB and whether proposed payments of dividends or stock repurchases are consistent with prudential expectations.

Payment of Dividends and Stock Repurchases

Trustmark is limited in its ability to pay dividends or repurchase its stock by the FRB, including on the basis that doing so would be an unsafe or unsound banking practice. Where a bank holding company intends to declare or pay a dividend, it generally will be required to inform and consult with the FRB in advance to ensure that such dividend does not raise supervisory concerns. It is the policy of the FRB that a bank holding company should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the company's capital needs and overall current and prospective financial condition.

According to guidance from the FRB, a bank holding company's dividend policies will be assessed against, among other things, its ability to achieve applicable capital ratio requirements. If a bank holding company does not achieve applicable capital ratio requirements, it may not be able to pay dividends. Although Trustmark currently expects to meet applicable capital ratio requirements, inclusive of the capital conservation buffer when it is fully phased in by the FRB, Trustmark cannot be sure that it will meet those requirements or that even if it does, it will be able to pay dividends.

Trustmark also is required to obtain the approval of the FRB in advance of redeeming or repurchasing its stock. In evaluating the appropriateness of a proposed redemption or repurchase of stock, the FRB will consider, among other things, the potential loss that a bank holding company may suffer from the prospective need to increase reserves and write down assets as a result of continued asset deterioration, and its ability to raise additional common equity and other capital to replace the stock that will be redeemed or repurchased. The FRB also will consider the potential negative effects on the bank holding company's capital structure of replacing common stock with any lower-tier form of regulatory capital issued.

Anti-Money Laundering Initiatives and Sanctions Compliance

Trustmark and TNB are subject to extensive regulations aimed at combatting money laundering and terrorist financing. The USA Patriot Act of 2001 (USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. United States Department of the Treasury regulations implementing the USA Patriot Act impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and financial consequences for the institution.

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) is responsible for helping to insure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. OFAC administers and enforces applicable economic and trade sanctions programs. These sanctions are usually targeted against foreign countries, terrorists, international narcotics traffickers and those believed to be involved in the proliferation of weapons of mass destruction. These regulations generally require either the blocking of accounts or other property of specified entities or individuals, but they may also require the rejection of certain transactions involving specified entities or individuals. Trustmark maintains policies, procedures and other internal controls designed to comply with these sanctions programs.

Other Federal Regulation of Trustmark

In addition to being regulated as a bank holding company, Trustmark is subject to regulation by the State of Mississippi under its general business corporation laws. Trustmark is also subject to the disclosure and other regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, as administered by the SEC.

Regulation of TNB

TNB is a national bank and, as such, is subject to extensive regulation by the OCC and, to a lesser extent, by the FDIC. In addition, as a large provider of consumer financial services, TNB is subject to regulation, supervision and examination by the Consumer Financial Protection Bureau (CFPB). Almost every area of the operations and financial condition of TNB is subject to extensive regulation and supervision and to various requirements and restrictions under federal and state law including loans, reserves, investments, issuance of securities, establishment of branches, capital adequacy, liquidity, earnings, dividends, management practices and the provision of services. TNB is subject to supervision, examination and reporting requirements under the National Bank Act, the Federal Reserve Act, the FDI Act, regulations of the OCC and certain of the requirements imposed by the Dodd-Frank Act. Trustmark and TNB are also subject to a wide range of consumer protection laws and regulations.

Restrictions on Lending, Insider Transactions and Affiliate Transactions

National banks are limited in the amounts they may lend to one borrower and the amount they may lend to insiders. These single counterparty and insider lending limits extend to loans, derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. In addition, the FDI Act imposes restrictions on insured depository institutions' purchases of assets from insiders.

Sections 23A and 23B of the Federal Reserve Act establish parameters for an insured bank to conduct "covered transactions" with its affiliates, generally (i) limiting the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10 percent of the bank's capital stock and surplus, and limiting the aggregate of all such transactions with all affiliates to an amount equal to 20 percent of the bank's capital stock and surplus, and (ii) requiring that all such transactions be on terms substantially the same, or at least as favorable, to the bank or subsidiary as those that would be provided to a non-affiliate. In addition, an insured bank's loans to affiliates must be fully collateralized. The term "covered transaction" includes the making of loans to the affiliate, purchase of assets from the affiliate, issuance of a guarantee on behalf of the affiliate and several other types of transactions.

Payment of Dividends

The principal source of Trustmark's cash revenue is dividends from TNB. There are various legal and regulatory provisions that limit the amount of dividends TNB can pay to Trustmark without regulatory approval. Under the National Bank Act, approval of the OCC is required if the total of all dividends declared in any calendar year exceeds the total of TNB's net income for that year combined with its retained net income from the preceding two years. TNB will have available in 2017 approximately \$98.3 million plus its net income for that year to pay to Trustmark as dividends. Also under the National Bank Act, TNB may not pay any dividends in excess of undivided profits (retained earnings). In addition, subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to the bank holding company or any of its subsidiaries. Further, subsidiary banks of a bank holding company are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of any services to the bank holding company. Moreover, an institution's failure to exceed the capital conservation buffer set forth in the capital rules with common equity Tier 1 capital would result in limitations on an institution's ability to make capital distributions and discretionary bonus payments.

CFPB

The Dodd-Frank Act established the CFPB within the Federal Reserve System as an independent bureau with responsibility for consumer financial protection. The CFPB is responsible for issuing rules, orders and guidance implementing federal consumer financial laws. The CFPB has primary enforcement authority over “very large” insured depository institutions or insured credit unions and their affiliates. An insured depository institution is deemed “very large” if it reports assets of more than \$10 billion in its quarterly Call Report for four consecutive quarters. The CFPB has near exclusive supervision authority, including examination authority, over these “very large” institutions and their affiliates to assess compliance with federal consumer financial laws, to obtain information about the institutions’ activities and compliance systems and procedures, and to detect and assess risks to consumers and markets. The CFPB has broad authority to prevent “unfair, deceptive or abusive acts or practices” and ensure consistent enforcement of laws so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The CFPB has rulemaking and interpretive authority under the Dodd-Frank Act and other federal consumer financial services laws, as well as broad supervisory, examination and enforcement authority over large providers of consumer financial products and services, such

as TNB. TNB's total assets were \$13.350 billion at December 31, 2016, and \$12.677 billion at December 31, 2015, and therefore, TNB is subject to CFPB supervision.

Other Federal and State Laws

Banking organizations are subject to numerous laws and regulations intended to protect consumers in addition to those discussed above. These laws include, among others: the Truth in Lending Act (TILA); Truth in Savings Act; Electronic Funds Transfer Act (EFTA); Expedited Funds Availability Act; Equal Credit Opportunity Act; Fair and Accurate Credit Transactions Act; Fair Housing Act; Fair Credit Reporting Act; Fair Debt Collection Act; Gramm-Leach-Bliley Act; Home Mortgage Disclosure Act; Right to Financial Privacy Act; Real Estate Settlement Procedures Act; laws regarding unfair and deceptive acts and practices; and usury laws.

Many states and local jurisdictions have consumer protection laws analogous, and in addition to, those listed above. While TNB's activities are governed primarily by federal law, the Dodd-Frank Act potentially narrowed National Bank Act preemption of state consumer financial laws, thereby making TNB and other national banks potentially subject to increased state regulation. The Dodd-Frank Act also codified the Supreme Court's decision in *Cuomo v. Clearing House Association*. As a result, State Attorneys General may enforce in a court action "an applicable law" against federally-chartered depository institutions like TNB. In addition, under the Dodd-Frank Act, State Attorneys General are authorized to bring civil actions against federally-chartered institutions, like TNB, to enforce regulations prescribed by the CFPB or to secure other remedies.

Finally, the Dodd-Frank Act potentially expanded state regulation over banks by eliminating National Bank Act preemption for national bank operating subsidiaries, including operating subsidiaries of TNB.

Mortgage Regulation

The Dodd-Frank Act imposed new standards for mortgage loan originations on lenders. The statute amended TILA to restrict the payment of fees to real-estate mortgage originators. Furthermore, the statute amended TILA to impose minimum underwriting standards on real-estate mortgage creditors (including nonbanks as well as bank creditors) and verifications to check borrowers' income and their ability to pay.

Financial Privacy Laws

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (GLB Act) imposed requirements related to the privacy of customer financial information. In accordance with the GLB Act, federal bank regulators adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. Trustmark recognizes the need for its customers' privacy.

Debit Interchange Regulation

The FRB has issued rules under the EFTA, as amended by the Dodd-Frank Act, to limit interchange fees that an issuer may receive or charge for an electronic debit card transaction. Under the FRB's rules, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of 21 cents per transaction and five basis points multiplied by the value of the transaction. In addition, the FRB's rules allow for an upward adjustment of no more than one cent to an issuer's debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud-prevention standards set out in the rule.

Issuers that, together with their affiliates, have assets of less than \$10.0 billion on the annual measurement date (December 31) are exempt from the debit card interchange fee standards. At the December 31, 2013 annual measurement date, Trustmark had assets greater than \$10.0 billion; and, therefore, was required to comply with the debit card interchange fee standards by July 1, 2014.

FDIC Deposit Insurance Assessments

The deposits of TNB are insured by the Deposit Insurance Fund (DIF), as administered by the FDIC, and, accordingly, are subject to deposit insurance assessments to maintain the DIF at minimum levels required by statute. The Dodd-Frank Act increased the minimum reserve ratio requirement for the DIF to 1.35 percent of total estimated insured deposits or the comparable percentage of the deposit assessment base.

The FDIC uses a risk based assessment system that imposes insurance premiums as determined by multiplying an insured bank's assessment base by its assessment rate. The Dodd-Frank Act revised the deposit insurance assessment base to be equal to a bank's total assets minus the sum of (1) its average tangible equity during the assessment period, and (2) any additional amount the FDIC determines is warranted for custodial and banker's banks.

The FDIC determines a bank's assessment rate within a range of base assessment rates using a risk scorecard that takes into account the bank's financial ratios and supervisory rating (the CAMELS composite rating), among other factors. The CAMELS rating system is a supervisory rating system developed to classify a bank's overall condition by taking into account capital adequacy, assets, management capability, earnings, liquidity and sensitivity to market and interest rate risk.

Under a rule adopted by the FDIC in 2011, the range of base assessment rates for all banks is to decrease in phases as the DIF's reserve ratio grows to 1.15 percent, 2.00 percent and 2.50 percent. The reserve ratio reached 1.17 percent as of June 30, 2016. In March 2016, the Board of Directors of the FDIC approved a final rule to impose a surcharge of 4.5 cents per \$100 of the assessment base, after making certain adjustments, on banks with \$10.0 billion or more in assets. The FDIC expects the DIF's reserve ratio will likely reach the statutorily required minimum level of 1.35 percent after approximately two years of payments of these surcharges. The surcharges became effective and began on July 1, 2016. Following the effectiveness of the decrease in base assessment rates and surcharges on July 1, 2016, the total base assessment rate for an institution with \$10.0 billion or more in assets ranges from a minimum of 1.5 basis points to a maximum of 40.0 basis points, plus applicable surcharges, but this range is subject to change as the DIF's reserve ratio continues to grow.

TNB's FDIC assessment expenses declined as of July 1, 2016 as the lower regular assessment rates and the allowable adjustments more than offset the surcharge of 4.5 cents per \$100 of assessment base. In 2016, TNB's expenses related to deposit insurance premiums totaled \$10.6 million.

TNB also paid approximately \$643 thousand in Financing Corporation (FICO) assessments related to outstanding FICO bonds for which the FDIC serves as collection agent. The bonds issued by FICO are due to mature from 2017 through 2019. For the quarter ended December 31, 2016, the FICO assessment rate was equal to 0.56 basis points.

The Dodd-Frank Act permanently increased the deposit insurance level to \$250,000 per depositor for each insured depository institution.

TNB Subsidiaries

TNB's nonbanking subsidiaries are subject to a variety of state and federal laws and regulations. TIA, a registered investment adviser, is subject to regulation by the SEC under the Investment Advisers Act of 1940 and by the State of Mississippi. FBBI is subject to the insurance laws and regulations of the states in which its divisions are active. SCC is subject to the supervision and regulation of the CDFI Fund and the State of Mississippi.

The GLB Act authorizes national banks to own or control a "financial subsidiary" that engages in activities that are not permissible for national banks to engage in directly. The GLB Act contains a number of provisions dealing with insurance activities by bank subsidiaries. Generally, the GLB Act affirms the role of the states in regulating insurance activities, including the insurance activities of financial subsidiaries of banks, but the GLB Act also preempts certain state laws. As a result of the GLB Act, TNB elected for predecessor subsidiaries that now constitute FBBI to become financial subsidiaries. This enables FBBI to engage in insurance agency activities at any location.

Available Information

Trustmark's internet address is www.trustmark.com. Information contained on this website is not a part of this report. Trustmark makes available through this address, free of charge, its Annual Report on Form 10-K, Quarterly

Edgar Filing: TRUSTMARK CORP - Form 10-K

Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed, or furnished to, the SEC.

Employees

At December 31, 2016, Trustmark employed 2,788 full-time equivalent associates, none of which are represented by a collective bargaining agreement. Trustmark believes its employee relations to be satisfactory.

15

Executive Officers of the Registrant

The executive officers of Trustmark (the Registrant) and its primary bank subsidiary, TNB, including their ages, positions and principal occupations for the last five years are as follows:

R. Michael Summerford, 68

Trustmark Corporation

Chairman of the Board since January 2017

Trustmark National Bank

Chairman of the Board since January 2017

Daniel A. Grafton, 70

Trustmark Corporation

Chairman of the Board from May 2011 to December 2016

Trustmark National Bank

Chairman of the Board from May 2011 to December 2016

Gerard R. Host, 62

Trustmark Corporation

President and Chief Executive Officer since January 2011

Trustmark National Bank

President and Chief Executive Officer since January 2011

Louis E. Greer, 62

Trustmark Corporation

Treasurer and Principal Financial Officer since January 2007

Trustmark National Bank

Executive Vice President and Chief Financial Officer since February 2007

Granville Tate, Jr., 60

Trustmark Corporation

Secretary since December 2015

Trustmark National Bank

General Counsel since December 2015

Chief Risk Officer since June 2016

Brunini, Grantham, Grower & Hewes, PLLC

Partner from January 2010 to December 2015

Board of Directors from January 2010 to November 2015

Chairman of the Board of Directors from January 2010 to May 2015

Duane A. Dewey, 58

Trustmark National Bank

President – Corporate Banking since September 2011

George C. Gunn, 65

Trustmark National Bank

Executive Vice President and Real Estate Banking Manager since September 2008

Robert Barry Harvey, 57

Trustmark National Bank

Executive Vice President and Chief Credit Officer since March 2010

Donald Glynn Ingram, 65

Trustmark National Bank

Executive Vice President and Chief Information Officer since September 2008

James M. Outlaw, Jr., 63

Trustmark National Bank

Executive Vice President and Chief Administrative Officer since August 2014

President and Chief Operating Officer – Texas from August 2006 to August 2014

16

Thomas C. Owens, 52

Trustmark National Bank

Executive Vice President and Bank Treasurer since September 2013

Webster Financial Corporation – Waterbury, Connecticut

Assistant Treasurer – Asset Liability Management from 2008 to September 2013

Douglas H. Ralston, 52

Trustmark National Bank

President – Wealth Management since November 2009

President – Trustmark Investment Advisors since June 2002

W. Arthur Stevens, 52

Trustmark National Bank

President – Retail Banking since September 2011

Breck W. Tyler, 58

Trustmark National Bank

President – Mortgage Services since March 2012

Executive Vice President and Mortgage Services Manager from June 2006 to March 2012

C. Scott Woods, 60

Trustmark National Bank

President – Insurance Services since March 2012

Executive Vice President and Insurance Services Manager from June 2006 to March 2012

ITEM 1A. RISK FACTORS

Trustmark and its subsidiaries could be adversely impacted by various risks and uncertainties, which are difficult to predict. As a financial institution, Trustmark has significant exposure to market risks, including interest rate risk, liquidity risk and credit risk. This section includes a description of the risks, uncertainties and assumptions identified by Management that could, individually or in combination, materially affect Trustmark's financial condition and results of operations, as well as the value of Trustmark's financial instruments in general, and Trustmark common stock, in particular. Additional risks and uncertainties that Management currently deems immaterial or is unaware of may also impair Trustmark's financial condition and results of operations. This report is qualified in its entirety by the risk factors that are identified below.

Trustmark's largest source of revenue (net interest income) is subject to interest rate risk.

Trustmark's profitability depends to a large extent on net interest income, which is the difference between income on interest-earning assets, such as loans and investment securities, and expense on interest-bearing liabilities, such as deposits and borrowings. Trustmark is exposed to interest rate risk in its core banking activities of lending and deposit taking, since assets and liabilities reprice at different times and by different amounts as interest rates change. Trustmark is unable to predict changes in market interest rates, which are affected by many factors beyond Trustmark's control, including inflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. In December 2015 and again in December 2016, the FRB increased the target range for the federal funds rate by 25 basis points. The FRB also indicated that it may further increase rates in the future. It is not possible to predict the timing or amount of any further changes to the federal funds rate.

Financial simulation models are the primary tools used by Trustmark to measure interest rate exposure. Using a wide range of scenarios, Management is provided with extensive information on the potential impact to net interest income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Trustmark's balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve and the changing composition of Trustmark's balance sheet, resulting from both strategic plans and customer behavior. In addition, the model incorporates Management's assumptions and expectations regarding such factors as loan and deposit growth, pricing, prepayment speeds and spreads between interest rates. Trustmark's simulation model using static balances at December 31, 2016, estimated that in the event of a hypothetical 200 basis point increase in interest rates, net interest income may decrease 0.12%, while a hypothetical 100 basis point increase in interest rates, may increase net interest income 0.04%. In the event of a hypothetical 100 basis point decrease in interest rates using static balances at December 31, 2016, it is estimated net interest income may decrease by 6.33%.

Net interest income is Trustmark's largest revenue source, and it is important to discuss how Trustmark's interest rate risk may be influenced by the various factors shown below:

In general, for a given change in interest rates, the amount of the change in value (positive or negative) is larger for assets and liabilities with longer remaining maturities. The shape of the yield curve may affect new loan yields, funding costs and investment income differently.

The remaining maturity of various assets or liabilities may shorten or lengthen as payment behavior changes in response to changes in interest rates. For example, if interest rates decline sharply, fixed-rate loans may pre-pay, or pay down, faster than anticipated, thus reducing future cash flows and interest income. Conversely, if interest rates increase, depositors may cash in their certificates of deposit prior to term (notwithstanding any applicable early withdrawal penalties) or otherwise reduce their deposits to pursue higher yielding investment alternatives. Repricing frequencies and maturity profiles for assets and liabilities may occur at different times. For example, in a falling rate environment, if assets reprice faster than liabilities, there will be an initial decline in earnings. Moreover, if assets and liabilities reprice at the same time, they may not be by the same increment. For instance, if the federal funds rate increased 50 basis points, rates on demand deposits may rise by 10 basis points, whereas rates on prime-based loans will instantly rise 50 basis points.

Financial instruments do not respond in a parallel fashion to rising or falling interest rates. This causes asymmetry in the magnitude of changes in net interest income, net economic value and investment income resulting from the hypothetical increases and decreases in interest rates. Therefore, Management monitors interest rate risk and adjusts Trustmark's investment, funding and hedging strategies to mitigate adverse effects of interest rate shifts on Trustmark's balance sheet.

Trustmark utilizes derivative contracts to hedge the mortgage servicing rights (MSR) in order to offset changes in fair value resulting from changes in interest rate environments. In spite of Trustmark's due diligence in regard to these hedging strategies, significant risks are involved that, if realized, may prove such strategies to be ineffective, which could adversely affect Trustmark's financial condition or results of operations. Risks associated with these strategies include the risk that counterparties in any such derivative and other hedging transactions may not perform; the risk that these hedging strategies rely on Management's assumptions and projections regarding these assets and general market factors, including prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, and that these assumptions and projections may prove to be incorrect; the risk that these hedging strategies do not adequately mitigate the impact of changes in interest rates, prepayment speeds or other forecasted inputs to the hedging model; and the risk that the models used to forecast the effectiveness of hedging instruments may project expectations that differ from actual results. In addition, increased regulation of the derivative markets may increase the cost to Trustmark to implement and maintain an effective hedging strategy.

Trustmark closely monitors the sensitivity of net interest income and investment income to changes in interest rates and attempts to limit the variability of net interest income as interest rates change. Trustmark makes use of both on- and off-balance sheet financial instruments to mitigate exposure to interest rate risk.

Trustmark's business may be adversely affected by conditions in the financial markets and economic conditions in general.

The economy showed moderate signs of improvement in 2016; however, economic concerns remain as a result of the cumulative weight of continued soft labor markets in the United States, volatility in crude oil prices and slowing growth in markets in Western Europe, Japan, China, Russia and other emerging markets, combined with uncertainty regarding anticipated further tightening of monetary policy by the FRB, the consequences of the decision of the United Kingdom to exit the European Union and the recent presidential election. The U.S. and European economies and financial markets tend to be closely associated, and therefore significant weakness in Europe would likely dampen domestic growth prospects during 2017. While domestic demand for loans has improved, particularly for commercial loans, further meaningful gains will depend on sustained economic growth. Strategic risk, including threats to business models from low rates and sluggish economic growth, remains high. Management's ability to plan, prioritize

and allocate resources in this new environment will be critical to Trustmark's ability to sustain earnings that will attract capital. Because of the complexities presented by current economic conditions, Management will continue to be challenged in identifying alternative sources of revenue, prudently diversifying assets, liabilities and revenue and effectively managing the costs of compliance.

In December 2016, the FRB increased the target range for the federal funds rate and indicated that it may further increase rates in the future, depending on economic conditions. Continued low interest rates will continue to place pressure on net interest margins for Trustmark (as well as its competitors), as older, higher-yielding assets that mature or default and can only be replaced with lower-yielding instruments. In addition, Management must protect against an increased vulnerability to rapidly changing rates in coming years in the event the current low-rate environment is replaced by a more volatile environment, which could increase exposure to reduced revenue from tighter margins.

Despite recent optimism resulting from stabilization in the housing sector, improvement of unemployment data and credit quality improvement, Trustmark does not assume that current uncertain conditions in the economy will improve significantly in the near future. A further weakened economy could affect Trustmark in a variety of substantial and unpredictable ways. In particular, Trustmark may face the following risks in connection with these events:

• Market developments and the resulting economic pressure on consumers may affect consumer confidence levels and may cause increases in delinquencies and default rates, which, among other effects, could further affect Trustmark's charge-offs and provision for loan losses.

• Loan performance could experience a significantly extended deterioration or loan default levels could accelerate, foreclosure activity could significantly increase, or Trustmark's assets (including loans and investment securities) could materially decline in value, any one of which, or any combination of more than one of which, could have a material adverse effect on Trustmark's financial condition or results of operations.

• Management's ability to measure the fair value of Trustmark's assets could be adversely affected by market disruptions that could make valuation of assets more difficult and subjective. If Management determines that a significant portion of its assets have values that are significantly below their recorded carrying value, Trustmark could recognize a material charge to earnings in the quarter during which such determination was made, Trustmark's capital ratios would be adversely affected by any such charge, and a rating agency might downgrade Trustmark's credit rating or put Trustmark on credit watch.

• The price per barrel of crude oil remained volatile during 2016. As of December 31, 2016, energy-related LHFI represented approximately 3.5% of Trustmark's total LHFI portfolio, and consisted principally of loans within the oilfield services and midstream segments. Additionally, as of December 31, 2016, approximately 4.2% of Trustmark's energy-related LHFI, or 0.1% of Trustmark's total LHFI portfolio, were classified as nonperforming or nonaccrual. Trustmark has no loan exposure where the source of repayment, or the underlying security of such exposure, is tied to the realization of value from energy reserves. Nonetheless, if oil prices remain at low levels for an extended period, Trustmark could experience weaker energy-related loan demand or increased losses within its energy-related LHFI portfolio.

It is difficult to predict the extent to which these challenging economic conditions will persist or whether recent progress in the economic recovery will instead shift to the potential for further decline. If the economy does weaken in the future, it is uncertain how Trustmark's business would be affected and whether Trustmark would be able successfully to mitigate any such effects on its business. Accordingly, these factors in the United States (and, indirectly, global) economy could have a material adverse effect on Trustmark's financial condition and results of operations.

Trustmark is subject to lending risk, which could impact the adequacy of the allowance for loan losses and results of operations.

There are inherent risks associated with Trustmark's lending activities. While the housing and real estate markets have shown continued improvement, they remain at depressed levels in certain regions. If trends in the housing and real estate markets were to revert or further decline below recession levels, Trustmark may experience higher than normal delinquencies and credit losses. Moreover, if the United States economy returns to a recessionary state, Management expects that it could severely affect economic conditions in Trustmark's market areas and that Trustmark could experience significantly higher delinquencies and credit losses. In addition, bank regulatory agencies periodically review Trustmark's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further charge-offs, based on judgments different from those of Management. As a result, Trustmark may elect, or be required to, to make further increases in its provision for loan losses in the future, particularly if economic conditions deteriorate.

Additionally, Trustmark may rely on information furnished by or on behalf of customers and counterparties in deciding whether to extend credit or enter into other transactions. This information could include financial statements, credit reports, business plans, and other information. Trustmark may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that

information. Reliance on inaccurate or misleading financial statements, credit reports, or other information could have a material adverse impact on Trustmark's business, financial condition, and results of operations.

Trustmark is subject to liquidity risk, which could disrupt its ability to meet its financial obligations.

Liquidity refers to Trustmark's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demand for loans and deposit withdrawals, funding operating costs and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ or when assets cannot be liquidated at fair market value as needed. Trustmark obtains funding through deposits and various short-term and long-term wholesale

borrowings, including federal funds purchased and securities sold under agreements to repurchase, the Federal Reserve Discount Window and Federal Home Loan Bank (FHLB) advances. Any significant restriction or disruption of Trustmark's ability to obtain funding from these or other sources could have a negative effect on Trustmark's ability to satisfy its current and future financial obligations, which could materially affect Trustmark's financial condition or results of operations.

In addition to the risk that one or more of the funding sources may become constrained due to market conditions unrelated to Trustmark, there is the risk that Trustmark's credit profile may decline such that one or more of these funding sources becomes partially or wholly unavailable to Trustmark.

Trustmark attempts to quantify such credit event risk by modeling bank specific and systemic scenarios that estimate the liquidity impact. Trustmark estimates such impact by attempting to measure the effect on available unsecured lines of credit, available capacity from secured borrowing sources and securitizable assets. To mitigate such risk, Trustmark maintains available lines of credit with the Federal Reserve Bank of Atlanta and the FHLB of Dallas that are secured by loans and investment securities. Management continuously monitors Trustmark's liquidity position for compliance with internal policies.

Trustmark is subject to extensive government regulation and supervision and possible enforcement and other legal actions.

Trustmark, primarily through TNB and certain nonbank subsidiaries, is subject to extensive federal and state regulation and supervision, which vests a significant amount of discretion in the various regulatory authorities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations and supervisory guidance affect Trustmark's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies and supervisory guidance, could affect Trustmark in substantial and unpredictable ways. Such changes could subject Trustmark to additional costs, limit the types of financial services and products Trustmark may offer and/or increase the ability of nonbanks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, civil money penalties, other sanctions by regulatory agencies and/or reputational damage. In this regard, government authorities, including bank regulatory agencies, are pursuing aggressive enforcement agendas with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on Trustmark's financial condition or results of operations.

Trustmark will be subject to increasingly stringent capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. The FRB, OCC, and FDIC issued final rules establishing regulatory capital requirements consistent with Basel III and implementing the capital requirements in the Dodd-Frank Act in July 2013. These capital rules require, among other things, a minimum common equity Tier 1 capital ratio of 4.5%, net of regulatory deductions, and establish a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets above the regulatory minimum capital requirement, effectively establishing a minimum common equity Tier 1 ratio of 7%. In addition, the capital rules increased the minimum Tier 1 capital requirement from 4% to 6% of risk-weighted assets. The capital rules also specify that a bank with a capital conservation buffer that does not exceed 2.5% shall face limitations on capital distributions and bonus payments to executives.

The capital rules also include stringent criteria for capital instruments to qualify as Tier 1 or Tier 2 capital. For instance, the rules effectively disallow newly-issued trust preferred securities to be a component of a holding company's Tier 1 capital. Trustmark will continue to count \$60.0 million in outstanding trust preferred securities issued by the Trust as Tier 1 capital up to the regulatory limit, as permitted by the grandfather provision in the capital rules.

Trustmark and TNB were required to comply with the revised capital rules beginning January 1, 2015. Certain of the requirements of the revised capital rules, such as the capital conservation buffer, will be phased in until January 1, 2019. Once the revised capital requirements are fully phased in, it is expected that Trustmark and TNB will be required to hold a greater amount of capital and a greater amount of common equity than they were previously required to hold. Management does not expect the capital rules to have a significant impact on Trustmark or TNB; however, Management will continue to evaluate the impact of the capital rules on Trustmark and TNB as they are phased in.

Unfavorable results from ongoing stress test analyses conducted on Trustmark and TNB may adversely affect Trustmark's ability to approve, declare and pay dividends to shareholders or compete for new business opportunities.

The FRB and OCC require Trustmark and TNB to perform periodic stress tests and analysis to evaluate their ability to absorb losses in various economic and financial scenarios. This stress test analysis uses three economic and financial scenarios generated by the FRB and OCC, including baseline, adverse and severely adverse scenarios. Trustmark and TNB are required to make certain assumptions in modeling future performance and must support these assumptions through statistical analysis and observed market behavior where applicable. Results of the stress tests and analysis performed by Trustmark and TNB must be submitted to the FRB and the OCC annually to be used in the regulators' analysis.

The outcome of the FRB's analysis of Trustmark's projected performance (including capital, earnings and balance sheet changes) could hinder Trustmark's ability to pay cash dividends to shareholders at levels consistent with prior practice, or at all. The results of the stress tests could also impact decision making regarding future acquisitions by Trustmark as well as Trustmark's ability to effectively compete for new business opportunities.

Additionally, the FRB and OCC may require Trustmark and TNB to raise additional capital or take other actions, or may impose restrictions on its business, based on the results of the stress tests, including requiring revisions or changes to capital plans. Trustmark and TNB may not be able to raise additional capital if required to do so, or may not be able to do so on favorable terms. Any such capital raises, if required, may also be dilutive to existing shareholders.

There may be risks resulting from the extensive use of models in Trustmark's business.

Trustmark relies on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, assessing potential acquisition opportunities, developing presentations made to market analysts and others, creating loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, conducting capital stress testing, calculating regulatory capital levels and estimating the fair value of financial instruments and balance sheet items. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If models for determining interest rate risk and asset-liability management are inadequate, Trustmark may incur increased or unexpected losses upon changes in market interest rates or other market measures. If models for determining probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If models to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what Trustmark could realize upon sale or settlement of such financial instruments. Any such failure in the analytical or forecasting models could have a material adverse effect on Trustmark's financial condition or results of operations.

Also, information Trustmark provides to its regulators based on poorly designed or implemented models could be inaccurate or misleading. Certain decisions that the regulators make, including those related to capital distributions and dividends to Trustmark's shareholders, could be adversely affected due to the regulator's perception that the quality of Trustmark's models used to generate the relevant information is insufficient.

Trustmark could be required to write down goodwill and other intangible assets.

When Trustmark consummates an acquisition, a portion of the purchase price is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2016, goodwill and other identifiable intangible assets were \$386.8 million. Under current accounting standards, if Trustmark determines goodwill or intangible assets are impaired, Trustmark would be required to write down the

carrying value of these assets. Trustmark's annual goodwill impairment evaluation performed during the fourth quarter of 2016 indicated no impairment of goodwill for any reporting segment. Management cannot provide assurance, however, that Trustmark will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on Trustmark's shareholders' equity and financial condition and could cause a decline in Trustmark's stock price.

Trustmark holds a significant amount of other real estate and may acquire and hold significant additional amounts, which could lead to increased operating expenses and vulnerability to additional declines in real property values.

As business necessitates, Trustmark forecloses on and takes title to real estate serving as collateral for loans. At December 31, 2016, Trustmark held \$62.1 million of other real estate, compared to \$78.8 million at December 31, 2015. The amount of other real estate held by Trustmark may increase in the future as a result of, among other things, business combinations, increased uncertainties in the housing market or increased levels of credit stress in residential real estate loan portfolios. Increased other real estate balances could

lead to greater expenses as Trustmark incurs costs to manage, maintain and dispose of real properties as well as to remediate any environmental cleanup costs incurred in connection with any contamination discovered on real property on which Trustmark has foreclosed and to which Trustmark has taken title. As a result, Trustmark's earnings could be negatively affected by various expenses associated with other real estate owned, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with real property ownership, as well as by the funding costs associated with other real estate assets. The expenses associated with holding a significant amount of other real estate could have a material adverse effect on Trustmark's financial condition or results of operations.

Declines in asset values may result in impairment charges and adversely affect the value of Trustmark's investments.

Trustmark maintains an investment portfolio that includes, among other asset classes, obligations of states and municipalities, agency debt securities and agency mortgage-related securities. The market value of investments in Trustmark's investment portfolio may be affected by factors other than interest rates or the underlying performance of the issuer of the securities, such as ratings downgrades, adverse changes in the business climate and a lack of pricing information or liquidity in the secondary market for certain investment securities. In addition, government involvement or intervention in the financial markets or the lack thereof or market perceptions regarding the existence or absence of such activities could affect the market and the market prices for these securities.

On a quarterly basis, Trustmark evaluates investments and other assets for impairment indicators. As of December 31, 2016, gross unrealized losses on temporarily impaired securities totaled \$30.5 million. Trustmark may be required to record impairment charges if these investments suffer a decline in value that is other-than-temporary. If it is determined that a significant impairment has occurred, Trustmark would be required to charge against earnings the credit-related portion of the other-than-temporary impairment, which could have a material adverse effect on results of operations in the period in which a write-off, if any, occurs.

If Trustmark is required to repurchase a significant number of mortgage loans that it had previously sold, such repurchases could negatively affect earnings.

One of Trustmark's primary business operations is mortgage banking under which residential mortgage loans are sold in the secondary market under agreements that contain representations and warranties related to, among other things, the origination and characteristics of the mortgage loans. Trustmark may be required to either repurchase the outstanding principal balance of a loan or make the purchaser whole for the anticipated 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 the Federal National Mortgage Association (FNMA) and the 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.

Trustmark operates in a highly competitive financial services industry.

Trustmark faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have greater financial resources. Such competitors primarily include national and regional banks, as well as community banks within the various markets in which Trustmark operates. At this time, major international banks do not compete directly with Trustmark in its markets, although they may do so in the future. Trustmark also faces competition from many other types of financial institutions, including savings and loans,

credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Additionally, fintech developments, such as distributed ledger technology (or blockchain), have the potential to disrupt the financial industry and change the way banks do business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation.

Some of Trustmark's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many of Trustmark's larger competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than Trustmark.

Trustmark's ability to compete successfully depends on a number of factors, including: the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets; the ability to continue to expand Trustmark's market position through organic growth and acquisitions; the scope, relevance and pricing of products and services offered to meet customer needs and demands; the rate at which Trustmark introduces new products and services relative to its competitors; and industry and general economic trends. Failure to perform in any of these areas could significantly weaken Trustmark's competitive position, which could adversely affect Trustmark's financial condition or results of operations.

Potential acquisitions by Trustmark may disrupt Trustmark's business and dilute shareholder value.

Trustmark seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services, and Trustmark will likely continue to seek to acquire such businesses in the future. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including: potential exposure to unknown or contingent liabilities of the target company, exposure to potential asset quality issues of the target company, difficulty and expense of integrating the operations and personnel of the target company, potential disruption to Trustmark's business, potential diversion of Trustmark's Management's time and attention, the possible loss of key employees and customers of the target company, difficulty in estimating the value of the target company and potential changes in banking or tax laws or regulations that may affect the target company. Acquisitions may involve the payment of a premium over book and market values, and, therefore, some dilution of Trustmark's tangible book value and net income per share of common stock may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue projections, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on Trustmark's financial condition or results of operations.

In addition, the acquisition of an insured depository institution that subsequently fails could significantly adversely affect an affiliated insured depository institution. Under cross-guarantee provisions of the FDI Act, the FDIC may recoup losses to the DIF by assessing a claim against insured depository institutions under common control for losses caused by the failure of an affiliated insured depository institution.

The soundness of other financial institutions could adversely affect Trustmark.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or questions or rumors about, one or more financial services institutions or the financial services industry in general, could lead to market-wide liquidity problems, which could, in turn, lead to defaults or losses by Trustmark and by other institutions. Trustmark has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, mutual funds, and other institutional clients. Many of these transactions expose Trustmark to credit risk in the event of default of its counterparty or client. In addition, Trustmark's credit risk may be exacerbated when the collateral it holds cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure owed to Trustmark. Losses related to these credit risks could materially and adversely affect Trustmark's results of operations.

Trustmark may experience disruptions of its operating systems or breaches in its information system security.

Trustmark is dependent upon communications and information systems to conduct business as such systems are used to manage virtually all aspects of Trustmark's business. Trustmark's operations rely on the secure processing, storage and transmission of confidential and other information within its computer systems and networks. Trustmark has taken protective measures, which are continuously monitored and modified as warranted; however, Trustmark's computer systems, software and networks may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond Trustmark's control. There could be sudden increases in customer transaction volume; electrical, telecommunications or other major physical infrastructure outages; natural disasters; and events arising from local or larger scale political or social matters, including terrorist acts. Further, Trustmark's operational and security systems and infrastructure may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious codes and cyber-attacks that could affect their information system security. If one or more of these events were to occur, Trustmark's or its customers' confidential and other information would be jeopardized, or such an event could cause interruptions or malfunctions in Trustmark's or its customers' or counterparties' operations. Trustmark may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures in its computer

systems and networks, and Trustmark may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by Trustmark. Any such losses, which may be difficult to detect, could adversely affect Trustmark's financial condition or results of operations. In addition, the occurrence of such a loss could expose Trustmark to reputational risk, the loss of customer business and additional regulatory scrutiny.

Security breaches in Trustmark's internet and mobile banking activities (myTrustmarkSM) could further expose Trustmark to possible liability and reputational risk. Any compromise in security could deter customers from using Trustmark's internet and mobile banking services that involve the transmission of confidential information. Trustmark relies on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. However, these precautions may not protect Trustmark's systems from compromise or breaches of security, which could result in significant legal liability and significant damage to Trustmark's reputation and business.

Trustmark relies upon certain third-party vendors to provide products and services necessary to maintain day-to-day operations. Accordingly, Trustmark's operations are exposed to the risk that these vendors might not perform in accordance with applicable contractual arrangements or service level agreements or that the security of the third-party vendors' computer systems, software and networks may be vulnerable to compromises that could impact information system security. Trustmark maintains a system of policies and procedures designed to monitor vendor risks. While Trustmark believes these policies and procedures effectively mitigate risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or service level agreements or any compromise in the security of an external vendor's information systems could be disruptive to Trustmark's operations, which could have a material adverse effect on its financial condition or results of operations.

Trustmark must utilize new technologies to deliver its products and services, which could require significant resources and expose Trustmark to additional risks, including cyber-security risks.

In order to deliver new products and services and to improve the productivity of existing products and services, the banking industry relies on rapidly evolving technologies. Trustmark's ability to effectively utilize new technologies to address customer needs and create operating efficiencies could materially affect future prospects. Management cannot provide any assurances that Trustmark will be successful in utilizing such new technologies. Incorporation of new products and services, such as internet and mobile banking services, may require significant resources and expose Trustmark to additional risks, including cyber-security risks.

Trustmark's use of third-party service providers and Trustmark's other ongoing third-party business relationships are subject to increasing regulatory requirements and attention.

Trustmark regularly uses third-party service providers and subcontractors as part of its business. Trustmark also has substantial ongoing business relationships with partners and other third-parties, and relies on certain third-parties to provide products and services necessary to maintain day-to-day operations. These types of third-party relationships are subject to increasingly demanding regulatory requirements and attention by regulators, including the FRB, the OCC and the FDIC. Under regulatory guidance, Trustmark is required to apply stringent due diligence, conduct ongoing monitoring and maintain effective control over third-party service providers and subcontractors and other ongoing third-party business relationships. Trustmark expects that the regulators will hold Trustmark responsible for deficiencies in its oversight and control of its third-party relationships and in the performance of the parties with which Trustmark has these relationships. Trustmark maintains a system of policies and procedures designed to ensure adequate due diligence is performed and to monitor vendor risks. While Trustmark believes these policies and procedures effectively mitigate risk, if the regulators conclude that Trustmark has not exercised adequate oversight and control over third-party service providers and subcontractors or other ongoing third-party business relationships or that such third-parties have not performed appropriately, Trustmark could be subject to enforcement actions, including civil monetary penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation.

Trustmark's controls and procedures may fail or be circumvented.

Trustmark's internal controls, disclosure controls and procedures, and corporate governance policies and procedures are based in part on assumptions, and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of Trustmark's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on Trustmark's business, financial condition and results of operations.

The stock price of financial institutions, like Trustmark, can be volatile.

The volatility in the stock prices of companies in the financial services industry, such as Trustmark, may make it more difficult for shareholders to resell Trustmark common stock at attractive prices in a timely manner. Trustmark's stock

price can fluctuate significantly in response to a variety of factors, including factors affecting the financial industry as a whole. The factors affecting financial stocks generally and Trustmark's stock price in particular include:

- actual or anticipated variations in earnings;
- changes in analysts' recommendations or projections;
- operating and stock performance of other companies deemed to be peers;
- perception in the marketplace regarding Trustmark, its competitors and/or the industry as a whole;
- significant acquisitions or business combinations involving Trustmark or its competitors;
- provisions in Trustmark's by-laws and articles of incorporation that may discourage takeover attempts, which may make Trustmark less attractive to a potential purchaser;
- changes in government regulation;

24

• failure to integrate acquisitions or realize anticipated benefits from acquisitions; and
• volatility affecting the financial markets in general.

General market fluctuations, the potential for breakdowns on electronic trading or other platforms for executing securities transactions, industry factors and general economic and political conditions could also cause Trustmark's stock price to decrease regardless of operating results.

Changes in accounting standards may affect how Trustmark reports its financial condition and results of operations.

Trustmark's accounting policies and methods are fundamental to how Trustmark records and reports its financial condition and results of operations. From time to time, the Financial Accounting Standards Board (FASB) changes the financial accounting and reporting standards that govern the preparation of Trustmark's financial statements. The recent economic recession resulted in increased scrutiny of accounting standards by regulators and legislators, particularly as they relate to fair value accounting principles. In addition, ongoing efforts to achieve convergence between U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards may result in changes to GAAP. Any such changes can be difficult to predict and can materially affect how Trustmark records and reports its financial condition or results of operations.

Trustmark may not be able to attract or retain key employees.

Trustmark's success depends substantially on its ability to attract and retain skilled, experienced personnel. Competition for qualified candidates in the activities and markets that Trustmark serves is intense. While Trustmark invests significantly in the training and developments of its employees, it is possible that Trustmark may not be able to retain key employees. If Trustmark were unable to retain its most qualified employees, its performance and competitive positioning could be materially adversely affected.

Natural disasters, such as hurricanes, could have a significant negative impact on Trustmark's business.

Many of Trustmark's loans are secured by property or are made to businesses in or near the Gulf Coast regions of Alabama, Florida, Mississippi and Texas, which are often in the path of seasonal hurricanes. Natural disasters, such as hurricanes, could have a significant negative impact on the stability of Trustmark's deposit base, the ability of borrowers to repay outstanding loans and the value of collateral securing loans, and could cause Trustmark to incur material additional expenses. Although Management has established disaster recovery policies and procedures, the occurrence of a natural disaster, especially if any applicable insurance coverage is not adequate to enable Trustmark's borrowers to recover from the effects of the event, could have a material adverse effect on Trustmark's financial condition or results of operations.

Trustmark may be subject to increased claims and litigation, which could result in legal liability and reputational damage.

Trustmark has been named from time to time as a defendant in litigation relating to its businesses and activities. Litigation may include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders.

Substantial legal liability against Trustmark, including its subsidiaries, could materially adversely affect Trustmark's business, financial condition or results of operations, or cause significant harm to our reputation.

Damage to Trustmark's reputation could have a significant negative impact on Trustmark's business.

Trustmark's ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by its reputation. Public perception of the financial services industry declined as a result of the economic downturn and related government response. Trustmark faces increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to Trustmark's reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of its information systems and the activities of its clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on Trustmark's reputation. Trustmark could also suffer significant reputational harm if it fails to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as Trustmark expands its business activities

through more numerous transactions, obligations and interests with and among its clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with Trustmark, which could adversely affect Trustmark's businesses.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Trustmark's principal offices are housed in its complex located in downtown Jackson, Mississippi and owned by TNB. Approximately 235,000 square feet, or 89%, of the available space in the main office building is allocated to bank use with the remainder occupied or available for occupancy by tenants on a lease basis. As of December 31, 2016, Trustmark, through TNB, also operated 174 full-service branches, 19 limited-service branches and an ATM network, which included 176 ATMs at on-premise locations and 69 ATMs located at off-premise sites. In addition, Trustmark's Mortgage Banking Group utilized four off-site locations, the Wealth Management Division utilized one off-site location and the Insurance Division utilized four off-site locations. Trustmark leases 86 of its 271 locations with the remainder being owned. Trustmark believes its properties are suitable and adequate to operate its financial services business.

ITEM 3. 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. There has been no new activity related 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 that date in the Superior Court of Justice in Ontario, Canada, by The Toronto-Dominion Bank ("TD Bank"), naming TNB and three other financial institutions not affiliated with Trustmark as defendants. The complaint seeks a declaration specifying the degree to which each of TNB and the other defendants are liable in respect of any loss and damage for which TD Bank is found to be liable in a litigation commenced against TD Bank brought by the Joint Liquidators of Stanford International Bank Limited in the Superior Court of Justice, Commercial List in Ontario, Canada (the "Joint Liquidators' Action"), as well as contribution and indemnity in respect of any judgment, interest and costs TD Bank is ordered to pay in the Joint Liquidators' Action. To date, TNB has not been served in connection with this action.

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

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

27

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
5. AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Prices and Dividends

Trustmark's common stock is listed on the NASDAQ Stock Market and is traded under the symbol TRMK. The table below represents, for each quarter of 2016 and 2015, the high and low intra-day sales price per share of Trustmark's common stock and the cash dividends declared per common share.

Sales Price Per Share	2016		2015	
	High	Low	High	Low
First quarter	\$23.64	\$19.75	\$24.70	\$21.05
Second quarter	25.29	21.93	25.55	23.27
Third quarter	28.70	23.67	25.46	21.95
Fourth quarter	36.79	26.81	26.04	21.98

Dividends Per Share	2016	2015
First quarter	\$0.23	\$0.23
Second quarter	0.23	0.23
Third quarter	0.23	0.23
Fourth quarter	0.23	0.23
Total	\$0.92	\$0.92

At January 31, 2017, there were approximately 3,900 registered shareholders of record and approximately 34,000 beneficial account holders of shares in nominee name of Trustmark's common stock. Other information required by this item can be found in Note 18 - Shareholders' Equity included in Part II. Item 8. - Financial Statements and Supplementary Data – of this report.

Stock Repurchase Program

On March 11, 2016, the Board of Directors of Trustmark authorized a stock repurchase program under which \$100.0 million of Trustmark's outstanding common stock may be acquired through March 31, 2019. The shares may be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Trustmark repurchased approximately 34 thousand shares of its common stock valued at approximately \$750 thousand during the year ended December 31, 2016.

Performance Graph

The following graph compares Trustmark's annual percentage change in cumulative total return on common shares over the past five years with the cumulative total return of companies comprising the NASDAQ market value index and the Morningstar Banks – Regional – US index. The Morningstar Banks – Regional – US index is an industry index published by Morningstar and consists of 1,000 large, regional, diverse financial institutions serving the corporate, government and consumer needs of retail banking, investment banking, trust management, credit cards and mortgage banking in the United States. This presentation assumes that \$100 was invested in shares of the relevant issuers on December 31, 2011, and that dividends received were immediately invested in additional shares. The graph plots the value of the initial \$100 investment at one-year intervals for the fiscal years shown.

Company	2011	2012	2013	2014	2015	2016
Trustmark	100.00	96.13	119.09	113.18	110.43	176.83
Morningstar Banks - Regional - US	100.00	118.79	164.82	177.71	186.29	252.37
NASDAQ	100.00	117.45	164.57	188.84	201.98	219.89

ITEM 6. SELECTED FINANCIAL DATA

The following unaudited consolidated financial data is derived from Trustmark's audited financial statements as of and for the five years ended December 31, 2016 (\$ in thousands, except per share data). The data should be read in conjunction with Part II. Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. - Financial Statements and Supplementary Data.

Years Ended December 31,	2016	2015	2014	2013	2012
Consolidated Statements of Income					
Total interest income	\$412,080	\$412,225	\$426,882	\$414,346	\$371,659
Total interest expense	24,547	20,460	21,546	25,859	30,669
Net interest income	387,533	391,765	405,336	388,487	340,990
Provision for loan losses, LHFI	10,957	8,375	1,211	(13,421)	6,766
Provision for loan losses, acquired loans	3,757	3,425	6,171	6,039	5,528
Noninterest income	173,943	173,149	173,142	173,859	175,189
Noninterest expense	407,298	401,662	409,005	415,731	344,502
Income before income taxes	139,464	151,452	162,091	153,997	159,383
Income taxes	31,053	35,414	38,529	36,937	42,100
Net Income	\$108,411	\$116,038	\$123,562	\$117,060	\$117,283
Revenues (1)					
Total revenue	\$561,476	\$564,914	\$578,478	\$562,346	\$516,179
Per Share Data					
Basic earnings per share	\$1.60	\$1.72	\$1.83	\$1.75	\$1.81
Diluted earnings per share	1.60	1.71	1.83	1.75	1.81
Cash dividends per share	0.92	0.92	0.92	0.92	0.92
Performance Ratios					
Return on average equity	7.14	% 7.94	% 8.83	% 8.75	% 9.30
Return on average tangible equity	9.99	% 11.36	% 12.97	% 13.09	% 12.55
Return on average assets	0.84	% 0.95	% 1.03	% 1.02	% 1.20
Average equity/average assets	11.73	% 11.90	% 11.63	% 11.60	% 12.87
Net interest margin (fully taxable equivalent)	3.53	% 3.78	% 4.03	% 4.01	% 4.09
Dividend payout ratio	57.50	% 53.49	% 50.27	% 52.57	% 50.83
Credit Quality Ratios (2)					
Net charge-offs/average loans	0.10	% 0.15	% -0.03	% -0.02	% 0.30
Provision for loan losses/average loans	0.14	% 0.12	% 0.02	% -0.23	% 0.11
Nonperforming loans/total loans (incl LHFS*)	0.61	% 0.76	% 1.21	% 1.10	% 1.41
Nonperforming assets/total loans (incl LHFS*)					
plus ORE**	1.38	% 1.81	% 2.57	% 2.84	% 2.71
Allowance for loan losses/total loans (excl LHFS*)	0.91	% 0.95	% 1.08	% 1.15	% 1.41

Edgar Filing: TRUSTMARK CORP - Form 10-K

December 31,	2016	2015	2014	2013	2012
Consolidated Balance Sheets					
Total assets	\$13,352,333	\$12,678,896	\$12,250,633	\$11,790,383	\$9,828,667
Securities	3,515,325	3,533,240	3,545,252	3,362,882	2,699,933
Total loans (incl LHFS* and acquired loans)	8,299,387	7,641,985	7,131,074	6,752,256	5,984,304
Deposits	10,056,012	9,588,230	9,698,358	9,859,902	7,896,517
Total shareholders' equity	1,520,208	1,473,057	1,419,940	1,354,953	1,287,369
Stock Performance					
Market value - close	\$35.65	\$23.04	\$24.54	\$26.84	\$22.46
Book value	22.48	21.80	21.04	20.11	19.86
Tangible book value	16.76	15.98	15.13	13.95	15.10
Capital Ratios					
Total equity/total assets	11.39	% 11.62	% 11.59	% 11.49	% 13.10
Tangible equity/tangible assets	8.74	% 8.79	% 8.62	% 8.26	% 10.28
Tangible equity/risk-weighted assets	11.39	% 11.68	% 12.17	% 11.88	% 14.56
Tier 1 leverage ratio	9.90	% 10.03	% 9.63	% 9.06	% 10.97
Tier 1 common risk-based capital ratio - BASEL I	—	—	12.75	% 12.21	% 14.63
Common equity tier 1 risk-based capital ratio - BASEL III	12.16	% 12.57	% —	—	—
Tier 1 risk-based capital ratio	12.76	% 13.21	% 13.47	% 12.97	% 15.53
Total risk-based capital ratio	13.59	% 14.07	% 14.56	% 14.18	% 17.22

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

(2) Excludes Acquired Loans and Covered Other Real Estate

*LHFS is Loans Held for Sale

**ORE is Other Real Estate

The following unaudited tables represent Trustmark's summary of quarterly operations for the years ended December 31, 2016 and 2015 (\$ in thousands, except per share data):

2016	1Q	2Q	3Q	4Q
Interest income	\$100,598	\$102,331	\$103,786	\$105,365
Interest expense	5,858	5,954	6,222	6,513
Net interest income	94,740	96,377	97,564	98,852
Provision for loan losses, LHFI	2,243	2,596	4,284	1,834
Provision for loan losses, acquired loans	1,309	607	691	1,150
Noninterest income	43,276	44,227	44,716	41,724
Noninterest expense	98,944	110,179	97,908	100,267
Income before income taxes	35,520	27,222	39,397	37,325
Income taxes	8,517	5,719	8,415	8,402
Net income	\$27,003	\$21,503	\$30,982	\$28,923
Earnings per share				
Basic	\$0.40	\$0.32	\$0.46	\$0.43
Diluted	0.40	0.32	0.46	0.43

Edgar Filing: TRUSTMARK CORP - Form 10-K

2015	1Q	2Q	3Q	4Q
Interest income	\$102,431	\$101,946	\$102,769	\$105,079
Interest expense	5,039	4,997	5,163	5,261
Net interest income	97,392	96,949	97,606	99,818
Provision for loan losses, LHFI	1,785	1,033	2,514	3,043
Provision for loan losses, acquired loans	347	825	1,256	997
Noninterest income	42,363	45,543	45,973	39,270
Noninterest expense	99,216	100,266	103,560	98,620
Income before income taxes	38,407	40,368	36,249	36,428
Income taxes	9,259	9,766	7,819	8,570
Net income	\$29,148	\$30,602	\$28,430	\$27,858
Earnings per share				
Basic	\$0.43	\$0.45	\$0.42	\$0.41
Diluted	0.43	0.45	0.42	0.41

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following provides a narrative discussion and analysis of Trustmark's financial condition and results of operations. This discussion should be read in conjunction with the consolidated financial statements and the supplemental financial data included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Executive Overview

Trustmark continued to achieve solid financial results with total revenue of \$140.6 million and \$561.5 million for the three months and year ended December 31, 2016, respectively. Trustmark continued to maintain and expand customer relationships as reflected by growth across all five market regions in the LHFI portfolio, which increased \$352.0 million, or 4.7%, during the fourth quarter of 2016 and \$759.8 million, or 10.7%, during year ended December 31, 2016. Credit quality remained strong and continued to be an important contributor to Trustmark's financial success. During the second quarter of 2016, Trustmark completed a voluntary early retirement program (ERP) as a proactive measure to manage noninterest expense. The ERP resulted in non-routine expenses of \$9.8 million included in noninterest expense (\$9.6 million included in salaries and employee benefits expense and \$213 thousand included in other expense) during 2016. As a result of the ERP, Trustmark realized cost savings in salaries and employee benefits expense of \$2.1 million during the fourth quarter of 2016 and \$4.4 million during the second half of 2016. On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Trustmark Capital Accumulation Plan (the Plan), a noncontributory tax-qualified defined benefit pension plan, effective December 31, 2016. During the fourth quarter and second half of 2016, Trustmark incurred non-routine pension expense of \$664 thousand and \$1.3 million, respectively, as a result of the de-risking investment strategy for the plan assets implemented in anticipation of the Plan termination. Trustmark reported net income of \$28.9 million, or diluted earnings per share (EPS) of \$0.43, and \$108.4 million, or diluted EPS of \$1.60, for the three months and year ended December 31, 2016, respectively. Trustmark is committed to investments to support profitable revenue growth as well as reengineering and efficiency opportunities to enhance shareholder value. Trustmark's capital position remained solid, reflecting the consistent profitability of its diversified financial services businesses. Trustmark's Board of Directors declared a quarterly cash dividend of \$0.23 per share. The dividend is payable March 15, 2017, to shareholders of record on March 1, 2017.

Financial Highlights

Trustmark reported net income of \$28.9 million, or basic and diluted EPS of \$0.43, in the fourth quarter of 2016, compared to \$27.9 million, or basic and diluted EPS of \$0.41, in the fourth quarter of 2015. The increase in net income when the fourth quarter of 2016 is compared to the same time period in 2015 was principally due to an increase in total revenue, which is defined as net interest income plus noninterest income, and a decline in the provision for loans losses, LHFI, partially offset by an increase in noninterest expense. Trustmark's performance during the quarter ended December 31, 2016, produced a return on average tangible equity of 10.41%, a return on average assets of 0.87%, an average equity to average assets ratio of 11.63% and a dividend payout ratio of 53.5%, compared to a return on average tangible equity of 10.61%, a return on average assets of 0.88%, an average equity to average assets ratio of 11.83% and a dividend payout ratio of 56.1% during the quarter ended December 31, 2015.

Revenue totaled \$140.6 million for the quarter ended December 31, 2016 compared to \$139.1 million for the quarter ended December 31, 2015, an increase of \$1.5 million, or 1.1%. The increase in total revenue for the fourth quarter of 2016 was principally the result of increases in interest and fees on LHFS and LHFI and noninterest income, partially offset by declines in interest and fees on acquired loans and interest on taxable securities and an increase in interest expense.

Interest and fees on LHFS and LHFI increased \$6.5 million, or 9.2%, when the fourth quarter of 2016 is compared to the same time period in 2015, primarily due to an increase in the LHFI portfolio. LHFI totaled \$7.851 billion at December 31, 2016, an increase of \$759.8 million, or 10.7%, when compared to December 31, 2015, as a result of net

growth across all of Trustmark's market regions and all categories in its LHFI portfolio, with the exception of other loans. Noninterest income for the fourth quarter of 2016 increased \$2.5 million, or 6.2%, when compared to the same time period in 2015, primarily due to increases in other income, net and mortgage banking, net. Other income, net increased \$2.6 million when the fourth quarter of 2016 is compared to the same time period in 2015, principally due to an increase in other miscellaneous income and the reduction of amortization related to the FDIC indemnification asset and the tax credit partnerships. Mortgage banking, net increased \$1.1 million, or 26.6%, when the fourth quarter of 2016 is compared to the same time period in 2015, principally due to a decrease in the negative net hedge ineffectiveness and an increase in the gain on sales of loans, net, partially offset by an increase in the negative net valuation adjustment for LHFS, interest rate lock commitments and forward sales contracts. Interest and fees on acquired loans decreased \$3.6 million, or 30.4%, when the fourth quarter of 2016 is compared to the same time period in 2015, in accordance with prior expectations. This was primarily due to a \$1.6 million decline in recoveries from the settlement of debt and a \$1.5 million decline in accretion income as acquired loans have continued to pay down as anticipated. Interest on taxable securities declined \$2.4 million, or 11.2%, when the fourth quarter of 2016 is compared to the same time period in 2015, principally due to declines in the yield maintenance payments on prepaid mortgage-backed securities and interest income on U.S. government agency securities as a result of calls and maturities during 2016 and an

increase in premium amortization on mortgage-back securities as a result of pay-downs of the loans underlying these securities. Interest expense for the three months ended December 31, 2016 increased \$1.3 million, or 23.8%, when compared to the same time period in 2015 principally due to increased interest expense for advances from the Federal Home Loan Bank (FHLB) of Dallas and federal funds purchased as a result of higher balances of and increased interest rates for these funding sources.

Noninterest expense for the fourth quarter of 2016 increased \$1.6 million, or 1.7%, when compared to the same time period in 2015, primarily due to increases in other real estate expense, services and fees and salaries and employee benefits expense, partially offset by decreases in other expense. Other real estate expense increased \$1.0 million when the fourth quarter of 2016 is compared to the same time period in 2015, principally due to a decline in the net gain on sales of other real estate. Services and fees increased \$1.0 million, or 7.5%, when the fourth quarter of 2016 is compared to the same time period in 2015, principally due to increases in data processing expenses related to software, advertising and other outside services and fees, partially offset by declines in legal and postage expenses. Salaries and employee benefit expense increased \$802 thousand, or 1.4%, when the fourth quarter of 2016 is compared to the same time period in 2015, primarily due to non-routine transaction expenses related to the ERP and Plan termination, an increase in commissions expense due to improvements in mortgage loan production and an increase in general incentive expense, partially offset by cost savings resulting from the ERP. Other expense decreased \$1.4 million, or 10.5%, when the fourth quarter of 2016 is compared to the same time period in 2015, principally due to declines in franchise taxes and loan expenses.

Trustmark's provision for loan losses, LHFI for the three months ended December 31, 2016 totaled \$1.8 million, a decrease of \$1.2 million, or 39.7%, when compared to a provision for loan losses, LHFI of \$3.0 million for the three months ended December 31, 2015. The decrease in the provision for loan losses, LHFI for the fourth quarter of 2016 when compared to the same time period in 2015 was primarily due to the additional provision expense recorded during the fourth quarter of 2015 as a result of revisions to the allowance for loan loss methodology for LHFI and a decline in the amount of specific reserve required for impaired LHFI, primarily in the Mississippi market region, during the fourth quarter of 2016. Please see the section captioned "Provision for Loan Losses, LHFI," for additional information regarding the provision for loan losses, LHFI. The provision for loan losses, acquired loans for the three months ended December 31, 2016 totaled \$1.2 million, an increase of \$153 thousand, or 15.3%, when compared to the same time period in 2015. Please see the section captioned "Provision for Loan Losses, Acquired Loans," for additional information regarding the provision for loan losses, acquired loans. In total, the provision for loan losses, net was \$3.0 million for the fourth quarter of 2016, a decrease of \$1.1 million, or 26.1%, when compared to the same time period in 2015.

For the year ended December 31, 2016, Trustmark reported net income of \$108.4 million, or basic and diluted EPS of \$1.60, compared to \$116.0 million, or basic and diluted EPS of \$1.72 and \$1.71, respectively, for the year ended December 31, 2015 and \$123.6 million, or basic and diluted EPS of \$1.83, for the year ended December 31, 2014. The decline in net income when 2016 is compared to 2015 was principally the result of an increase in noninterest expense, primarily due to the non-routine transaction expense resulting from the ERP and Plan termination, a decline in total revenue as discussed in the following paragraph and an increase in the provision for loan losses, LHFI. Trustmark's performance for the year ended December 31, 2016, produced a return on average tangible equity of 9.99%, a return on average assets of 0.84% and a dividend payout ratio of 57.5%, compared to a return on average tangible equity of 11.36%, a return on average assets of 0.95% and a dividend payout ratio of 53.5% for the year ended December 31, 2015 and a return on average tangible equity of 12.97%, a return on average assets of 1.03% and a dividend payout ratio of 50.3% for the year ended December 31, 2014. Trustmark's average equity to average assets ratio was 11.73%, 11.90% and 11.63% for the years ended December 31, 2016, 2015 and 2014, respectively.

Revenue totaled \$561.5 million for the year ended December 31, 2016, compared to \$564.9 million and \$578.5 million for the years ended December 31, 2015 and 2014, respectively. Revenue for 2016 decreased \$3.4 million, or 0.6%, compared to 2015 principally due to declines in interest and fees on acquired loans, interest on taxable

securities, service charges on deposit accounts and mortgage banking, net and an increase in other interest expense, which were partially offset by increases in interest and fees on LHFS and LHFII and other income, net.

Interest and fees on acquired loans decreased \$21.0 million, or 41.1%, when 2016 is compared to 2015, primarily due to a \$12.1 million decline in accretion income and a \$7.8 million decline in recoveries from the settlement of debt as acquired loans have continued to pay down as anticipated. Interest on taxable securities declined \$3.1 million, or 3.9%, when 2016 is compared to 2015, principally due to declines in the yield maintenance payments on prepaid mortgage-backed securities and interest income on U.S. government agency securities as a result of calls and maturities during 2016. Service charges on deposit accounts declined \$2.1 million, or 4.5%, when 2016 is compared to 2015, primarily due to a decrease in the number of customer transactions resulting in a non-sufficient funds (NSF) or overdraft charge for consumer demand deposit accounts. Mortgage banking, net declined \$2.0 million, or 6.5%, when 2016 is compared to 2015, principally due to a net negative hedge ineffectiveness of \$2.9 million in 2016 compared to a net positive hedge ineffectiveness of \$1.9 million in 2015 partially offset by a \$2.6 million increase in gain on sales of loans, net and a \$1.1 million increase in mortgage servicing income, net. Other interest expense increased \$3.0 million, or 42.8%, when 2016 is compared to 2015, primarily due to an increase in interest expense on FHLB advances with the FHLB of Dallas, which Trustmark uses as a liquidity source. Interest and fees on LHFS and LHFII increased \$25.2 million, or 9.2%, when 2016 is compared to 2015, primarily due to the \$759.8 million increase in the LHFII portfolio. Other income, net increased \$6.1 million when 2016 is compared

to 2015, primarily reflecting a decrease in the net reduction of the FDIC indemnification asset related to the acquired covered loans and covered other real estate, a net gain on the sale of premises and equipment as a result of the sale of a former bank branch during 2016 compared to a net loss on the sale of premises and equipment recorded during 2015 on the sale of a former bank branch acquired in the BancTrust merger and an increase in other miscellaneous income related to various vendor contract bonuses and settlements, a one-time arrangement fee and merchant service fees received during 2016.

Noninterest expense for 2016 increased \$5.6 million, or 1.4%, when compared to 2015 principally due to increases in salaries and employee benefits expense and services and fees, partially offset by declines in other real estate expense and other expense. Salaries and employee benefits expense increased \$9.4 million, or 4.1%, when 2016 is compared to 2015, primarily due to non-routine transaction expenses related to the ERP and Plan termination and higher commissions expense as a result of improvements in mortgage loan production, partially offset by cost savings realized related to the ERP. Services and fees expense increased \$1.2 million, or 2.0%, when 2016 is compared to 2015, primarily to due to increases in data processing expenses related to software, other outside services and fees and advertising, partially offset by declines in legal and communications expenses. Other real estate expense for 2016 declined \$4.3 million, or 88.0%, compared to 2015, principally due to an increase in the net gain on sales of other real estate and a decrease in other real estate carrying costs. Other expense declined \$1.2 million, or 2.4%, when 2016 is compared to 2015, primarily due to decreases in franchise taxes, the amortization of the non-taxable core deposit intangible asset and loan expenses, partially offset by increases in customer related fraud losses and a property valuation adjustment recorded during 2016 on assets held for sale.

Trustmark's provision for loan losses, LHFI, for 2016 totaled \$11.0 million, an increase of \$2.6 million, or 30.8%, when compared to a provision for loan losses, LHFI of \$8.4 million for 2015. The increase in the provision for loan losses, LHFI when 2016 is compared to 2015 primarily reflects the increase in the amount of required reserves for LHFI, partially offset by a decrease in net charge-offs and the additional provision expense recorded during 2015 as a result of revisions to the allowance for loan loss methodology. Please see the section captioned "Provision for Loan Losses, LHFI," for additional information regarding the provision for loan losses, LHFI. The provision for loan losses, acquired loans for 2016 totaled \$3.8 million, an increase of \$332 thousand, or 9.7%, when compared to 2015. Please see the section captioned "Provision for Loan Losses, Acquired Loans," for additional information regarding the provision for loan losses, acquired loans. In total, the provision for loan losses, net was \$14.7 million for 2016, an increase of \$2.9 million, or 24.7%, when compared to 2015.

At December 31, 2016, nonperforming assets, excluding acquired loans and covered other real estate, totaled \$111.3 million, a decrease of \$21.2 million, or 16.0%, compared to December 31, 2015 due to declines in both nonaccrual LHFI and other real estate, excluding covered other real estate. Total nonaccrual LHFI were \$49.2 million at December 31, 2016, representing a decrease of \$6.1 million, or 11.0%, relative to December 31, 2015 principally due to substandard credits that were paid off or foreclosed in the Mississippi market region, returned to accrual status in the Florida market region, and charged off in the Mississippi and Texas market regions partially offset by LHFI migrating to nonaccrual status in the Mississippi, Florida and Tennessee market regions during 2016. The percentage of loans, excluding acquired loans, that are 30 days or more past due and nonaccrual LHFI decreased in 2016 to 1.33% compared to 1.44% in 2015 and 2.12% in 2014. Other real estate, excluding covered other real estate, declined \$15.1 million, or 19.6%, during 2016 primarily due to properties sold as well as write-downs of properties in Trustmark's Florida, Mississippi, Alabama and Tennessee market regions partially offset by properties foreclosed in these four market regions.

LHFI totaled \$7.851 billion at December 31, 2016, an increase of \$759.8 million, or 10.7%, compared to December 31, 2015. The increase in LHFI during 2016 represented net growth across all five of Trustmark's market regions, primarily in loans secured by real estate, commercial and industrial loans and state and other political subdivision loans. For additional information regarding changes in LHFI and comparative balances by loan category, see the section captioned "LHFI."

While both classified and criticized LHFI balances remain at low levels and continue to reflect strong credit quality, both classified and criticized LHFI increased during the second half of 2016. As of December 31, 2016, classified LHFI balances increased \$68.2 million, or 43.2%, while criticized LHFI balances increased \$72.2 million, or 39.6%, when compared to balances at December 31, 2015. The increase in the volume of classified and criticized LHFI was primarily a result of downgrades to several commercial and industrial credits in the Texas and Mississippi market regions during the second half of 2016. The downgrades were primarily energy-related credits identified during Trustmark's ongoing quarterly assessment of its energy portfolio and have been reserved for appropriately.

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

Total deposits were \$10.056 billion at December 31, 2016, an increase of \$467.8 million, or 4.9% compared to December 31, 2015. During 2016, noninterest-bearing deposits decreased \$25.5 million, or 0.8%, while interest-bearing deposits increased \$493.2 million,

or 7.5%, primarily due to growth in interest-bearing demand deposit accounts, predominantly in public interest checking, and savings accounts partially offset by declines in certificates of deposits.

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposits growth. Other short-term borrowings totaled \$1.310 billion at December 31, 2016, an increase of \$455.9 million, or 53.4%, when compared with \$853.7 million at December 31, 2015 as a result of the increase in earning assets, principally LHFI, out-pacing the growth in deposits. The increase in other short-term borrowings was principally due to a \$350.0 million increase in outstanding short-term FHLB advances with the FHLB of Dallas, primarily as a result of a \$500.0 million outstanding FHLB advance which was reclassified from long-term to short-term during the fourth quarter of 2016, and a \$102.4 million increase in upstream federal funds purchased as Trustmark continues to utilize these attractively priced funding sources to fund the difference between loan and deposit growth.

Long-term FHLB advances totaled \$251.0 million at December 31, 2016, a decrease of \$250.1 million, or 49.9%, when compared to \$501.2 million at December 31, 2015. The decrease in long-term FHLB advances was primarily a result of the \$500.0 million long-term FHLB advance obtained in December 2015 being reclassified to short-term during the fourth quarter of 2016, as noted above. During the second quarter of 2016, Trustmark obtained a \$250.0 million long-term FHLB advance from the FHLB of Dallas. Similar to the long-term advance obtained in December 2015, the advance has a variable rate and a two-year maturity. Trustmark chose to utilize FHLB advances with the FHLB of Dallas as a funding source for loan growth due to the advantageous rates available in comparison to other sources of funding.

Critical Accounting Policies

Trustmark's consolidated financial statements are prepared in accordance with GAAP and follow general practices within the financial services industry. Application of these accounting principles requires Management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, actual financial results could differ from those estimates.

Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. These critical accounting policies are described below.

For additional information regarding the accounting policies discussed below, please see Note 1 – Significant Accounting Policies set forth in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Allowance for Loan Losses, LHFI

The allowance for loan losses, LHFI is established through provisions for estimated loan losses charged against net income. The allowance reflects Management's best estimate of the probable loan losses related to specifically identified LHFI as well as probable incurred loan losses in the remaining loan portfolio and requires considerable judgment. The allowance is based upon Management's current judgments and the credit quality of the loan portfolio, including all internal and external factors that impact loan collectibility. Accordingly, the allowance is based upon both past events and current economic conditions.

A significant shift in one or more factors included in the allowance for loan loss methodology could result in a material change to Trustmark's allowance for loan losses, LHFI. For example, if there were changes in one or more of the estimates, assumptions or judgments used as they relate to a portfolio of commercial LHFI, Trustmark could find that it needs to increase the level of future provisions for possible loan losses with respect to that portfolio. Additionally, credit deterioration of specific borrowers due to changes in these factors could cause the

internally assigned risk rating to shift to a more severe category. As a result, Trustmark could find that it needs to increase the level of future provisions for possible loan losses with respect to these LHFI. Given the nature of many of these estimates, assumptions and judgments, it is not possible to provide meaningful estimates of the impact of any such potential shifts.

For a complete description of Trustmark's allowance for loan loss methodology, please see Note 5 – LHFI and Allowance for Loan Losses, LHFI included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Acquired Loans

Acquired loans are recorded at their estimated fair value as of the acquisition date. The fair value of acquired loans is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of defaults, and current market rates. Estimated

credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date.

For acquired impaired loans, Trustmark (a) calculates the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows) and (b) estimates the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows). Under FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the acquired impaired loan portfolio, and such amount is subject to change over time based on the performance of such loans. The excess of undiscounted expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the "accretable yield" 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. Under the effective yield method, the accretable yield is recorded as an accretion of interest income over the life of the loan.

As required by FASB ASC Topic 310-30, Trustmark periodically re-estimates the expected cash flows to be collected over the life of the acquired impaired loans. If, based on current information and events, it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition, the acquired loans are considered impaired. The decrease in the expected cash flows reduces the carrying value of the acquired impaired loans as well as the accretable yield and results in a charge-off through the allowance for loan losses, acquired loans or the establishment of an allowance for loan losses, acquired loans with a charge to income through the provision for loan losses, acquired loans. If, based on current information and events, it is probable that there is a significant increase in the cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, Trustmark will reduce any remaining allowance for loan losses, acquired loans established on the acquired impaired loans for the increase in the present value of cash flows expected to be collected. The increase in the expected cash flows for the acquired impaired loans over those originally estimated at acquisition increases the carrying value of the acquired impaired loans as well as the accretable yield.

FDIC Indemnification Asset

Trustmark accounts for amounts receivable under a loss-share agreement as an indemnification asset in accordance with FASB ASC Topic 805, "Business Combinations." A FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value at the acquisition date and the undiscounted cash flows Trustmark expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset.

The FDIC indemnification asset is revalued concurrent with the loan re-estimation and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of covered loans and covered other real estate. These adjustments are measured on the same basis as the related covered loans and covered other real estate. Increases in the cash flows of the covered loans and covered other real estate over those expected reduce the FDIC indemnification asset, and decreases in the cash flows of the covered loans and covered other real estate under those expected increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Mortgage Servicing Rights (MSR)

Trustmark recognizes as assets the rights to service mortgage loans based on the estimated fair value of the MSR when loans are sold and the associated servicing rights are retained. Trustmark has elected to account for the MSR at fair value.

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

By way of example, an increase in either the prepayment speed or discount rate assumption will result in a decrease in the fair value of the MSR, while a decrease in either assumption will result in an increase in the fair value of the MSR. In recent years, there have been significant market-driven fluctuations in loan prepayment speeds and discount rates. These fluctuations can be rapid and may

continue to be significant. Therefore, estimating prepayment speed and/or discount rates within ranges that market participants would use in determining the fair value of the MSR requires significant management judgment.

At December 31, 2016, the MSR fair value was approximately \$80.2 million. The impact on the MSR fair value of a 10% adverse change in prepayment speeds or a 100 basis point increase in discount rates at December 31, 2016, would be a decline in fair value of approximately \$2.5 million and \$2.9 million, respectively. Changes of equal magnitude in the opposite direction would produce similar increases in fair value in the respective amounts.

Goodwill and Identifiable Intangible Assets

Trustmark records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value as required by FASB ASC Topic 805. The carrying amount of goodwill at December 31, 2016 totaled \$321.1 million for the General Banking Division and \$45.0 million for the Insurance Division, a consolidated total of \$366.2 million. Trustmark's goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Trustmark's identifiable intangible assets, which totaled \$20.7 million at December 31, 2016, are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount.

The initial recording and subsequent impairment testing of goodwill requires subjective judgments concerning estimates of the fair value of the acquired assets. The goodwill impairment test is performed in two phases. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure, or a second step, compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Trustmark performed an annual impairment test of goodwill for reporting units contained in both the General Banking and Insurance Divisions as of October 1, 2016, 2015, and 2014, respectively, which indicated that no impairment charge was required. The impairment test for the General Banking Division utilized valuations based on comparable deal values for financial institutions while the test for the Insurance Division utilizes varying valuation scenarios for the multiple of earnings before interest, income taxes, depreciation and amortization method based on recent acquisition activity. Based on this analysis, Trustmark concluded that the fair value of the reporting units exceeded the carrying value for both the General Banking Division and the Insurance Division; therefore, no impairment charge was required. Significant changes in future profitability and value of our reporting units could affect Trustmark's impairment evaluation.

The carrying amount of Trustmark's identifiable intangible assets subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition. That assessment shall be based on the carrying amount of the intangible assets subject to amortization at the date it is tested for recoverability. Intangible assets subject to amortization shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Fair value may be determined using market prices, comparison to similar assets, market multiples and other determinants. Factors that may significantly affect the estimates include, among others, competitive forces, customer behavior and attrition, changes in revenue growth trends and specific industry or market sector conditions. Other key judgments in accounting for intangibles include determining the useful life of the particular asset and classifying assets as either goodwill (which does not require amortization) or identifiable intangible assets (which does require amortization).

Other Real Estate

Other real estate includes assets that have been acquired in satisfaction of debt through foreclosure and is recorded at the lower of cost or estimated fair value less the estimated cost of disposition. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan losses. Other real estate is revalued on an annual basis or more often if market conditions necessitate. An other real estate specific reserve may be recorded through other real estate expense for declines in fair value subsequent to foreclosure based on recent appraisals or changes in market conditions. Subsequent to foreclosure, losses on the periodic revaluation of the property are charged against a reserve specific to other real estate or to noninterest expense in other real estate expense if a reserve does not exist. Significant judgments and complex estimates are required in estimating the fair value of other real estate, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate.

Defined Benefit Plans

Trustmark's plan assets, projected benefit liabilities and pension cost are determined utilizing actuarially-determined present value calculations. The valuation of the projected benefit obligation and net periodic pension expense for the Plan and Trustmark's nonqualified supplemental retirement plans requires Management to make estimates regarding the amount and timing of expected cash outflows. Several variables affect these calculations, including (i) size and characteristics of the associate population, (ii) discount rate, (iii) expected long-term rate of return on plan assets and (iv) recognition of actual returns on plan assets. Below is a brief description of the variables that introduce material uncertainty into Management's estimates and the effect they have on estimated pension cost.

Population and Characteristics of Associates. Pension cost is directly related to the number of associates covered by the plan and characteristics such as salary, age, years of service and benefit terms. Benefit accruals under the Plan have been frozen since 2009. 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. At December 31, 2016, the pension plan census totaled 1,965 current and former associates.

Discount Rate. The discount rate utilized in determining the present value of the future benefit obligation is currently 3.71% (as compared to 3.86% at December 31, 2015). The discount rate for the plans is determined by matching the expected cash flows of the plans to a yield curve based on long term, high quality fixed income debt instruments available as of the measurement date (December 31, 2016). The discount rate is reset annually on the measurement date to reflect current economic conditions. If Trustmark assumes a 1.00% increase or decrease in the discount rate for Trustmark's defined benefit pension plans and kept all other assumptions constant, the benefit cost associated with the plans would decrease or increase by approximately \$1.7 million and \$2.0 million, respectively.

Expected Long-Term Rate of Return on Plan Assets. Based on historical experience and market projection of the target asset allocation set forth in the investment policy for the Plan, the pre-tax expected rate of return on the plan assets used in 2016 was 6.00% for the first half of the year and 2.50% thereafter as a result of Trustmark's de-risking investment strategy for the Plan, versus 7.00% in 2015. This expected rate of return is dependent upon the asset allocation decisions made with respect to plan assets. Annual differences, if any, between expected and actual return are included in the unrecognized net actuarial gain or loss amount. Trustmark generally amortizes any cumulative unrecognized net actuarial gain or loss in excess of 10% of the greater of the projected benefit obligation or the fair value of plan assets. If Trustmark assumes a 1.00% increase or decrease in the expected long-term rate of return for the Plan, holding all other actuarial assumptions constant, the pension cost would decrease or increase by approximately \$682 thousand.

Recognition of Actual Asset Returns. Trustmark utilizes the provisions of FASB ASC Topic 715, "Compensation – Retirement Benefits," which allow for the use of asset values that smoothes investment gains and losses over a period of up to five years. This could partially mitigate the impact of short-term gains or losses on reported net income.

Other Actuarial Assumptions. To estimate the projected benefit obligation, actuarial assumptions are required to be made by Management, including mortality rate, retirement rate, disability rate and the rate of compensation increases.

On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan with a termination date of December 31, 2016. As disclosed in a Current Report on Form 8-K filed by Trustmark with the SEC on December 21, 2016, Trustmark estimates that it will incur a one-time pension settlement expense in connection with the termination of the Plan of approximately \$17.5 million upon the final distribution of plan assets during the second quarter of 2017. Trustmark does not expect this estimated amount to change materially between the date of this report and the final distribution of plan assets although if a material number of participants in the Plan elect to receive annuity payments rather than a lump sum cash payment pursuant to the termination of the Plan, Trustmark's costs in effecting the termination of the Plan would change, and would likely increase, perhaps materially. The Board of Directors of Trustmark 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.

Contingent Liabilities

Trustmark estimates contingent liabilities based on Management's evaluation of the probability of outcomes and their ability to estimate the range of exposure. As stated in FASB ASC Topic 450, "Contingencies," a liability is contingent if the amount is not presently known but may become known in the future as a result of the occurrence of some uncertain future event. Accounting standards require that a liability be recorded if Management determines that it is probable that a loss has occurred, and the loss can be reasonably estimated. It is implicit in this standard that it must be probable that the loss will be confirmed by some future event. As part of the estimation process, Management is required to make assumptions about matters that are, by their nature, highly uncertain. The assessment of contingent liabilities, including legal contingencies and income tax liabilities, involves the use of critical estimates, assumptions and judgments. Management's estimates are based on their belief that future events will validate the current assumptions regarding the ultimate outcome of these exposures. However, there can be no assurance that future events, such as court decisions or

Internal Revenue Service (IRS) positions, will not differ from Management's assessments. Whenever practicable, Management consults with outside experts (attorneys, consultants, claims administrators, etc.) to assist with the gathering and evaluation of information related to contingent liabilities.

Recent Legislative and Regulatory Developments

For information regarding legislation and regulation applicable to Trustmark, see the section captioned "Supervision and Regulation" included in Part I. Item 1. – Business – of this report.

Non-GAAP Financial Measures

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

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

These calculations are intended to complement the capital ratios defined by GAAP and banking regulators. Because GAAP does not include these capital ratio measures, Trustmark believes there are no comparable GAAP financial measures to these tangible common equity ratios. Despite the importance of these measures to Trustmark, there are no standardized definitions for them and, as a result, Trustmark's calculations may not be comparable with other organizations. Also, there may be limits in the usefulness of these measures to investors. As a result, Trustmark encourages readers to consider its audited consolidated financial statements and the notes related thereto in their entirety and not to rely on any single financial measure.

Edgar Filing: TRUSTMARK CORP - Form 10-K

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

	Years Ended December 31,			
	2016	2015	2014	
TANGIBLE EQUITY				
AVERAGE BALANCES				
Total shareholders' equity	\$ 1,517,955	\$ 1,460,650	\$ 1,398,945	
Less: Goodwill	(366,156)	(365,613)	(367,281)	
Identifiable intangible assets	(24,132)	(30,686)	(37,651)	
Total average tangible equity	\$ 1,127,667	\$ 1,064,351	\$ 994,013	
PERIOD END BALANCES				
Total shareholders' equity	\$ 1,520,208	\$ 1,473,057	\$ 1,419,940	
Less: Goodwill	(366,156)	(366,156)	(365,500)	
Identifiable intangible assets	(20,680)	(27,546)	(33,234)	
Total tangible equity (a)	\$ 1,133,372	\$ 1,079,355	\$ 1,021,206	
TANGIBLE ASSETS				
Total assets	\$ 13,352,333	\$ 12,678,896	\$ 12,250,633	
Less: Goodwill	(366,156)	(366,156)	(365,500)	
Identifiable intangible assets	(20,680)	(27,546)	(33,234)	
Total tangible assets (b)	\$ 12,965,497	\$ 12,285,194	\$ 11,851,899	
Risk-weighted assets (c)	\$ 9,952,123	\$ 9,242,902	\$ 8,387,799	
NET INCOME ADJUSTED FOR INTANGIBLE AMORTIZATION				
Net income	\$ 108,411	\$ 116,038	\$ 123,562	
Plus: Intangible amortization net of tax	4,240	4,829	5,410	
Net income adjusted for intangible amortization	\$ 112,651	\$ 120,867	\$ 128,972	
Period end common shares outstanding (d)	67,628,618	67,559,128	67,481,992	
TANGIBLE EQUITY MEASUREMENTS				
Return on average tangible equity (1)	9.99	% 11.36	% 12.97	%
Tangible equity/tangible assets (a)/(b)	8.74	% 8.79	% 8.62	%
Tangible equity/risk-weighted assets (a)/(c)	11.39	% 11.68	% 12.17	%
Tangible book value (a)/(d)*1,000	\$ 16.76	\$ 15.98	\$ 15.13	
TIER 1 COMMON RISK-BASED CAPITAL - BASEL I				
Total shareholders' equity			\$ 1,419,940	
Eliminate qualifying AOCI			42,484	
Qualifying tier 1 capital			60,000	
Disallowed goodwill			(365,500)	
Adjustment to goodwill allowed for deferred taxes			15,855	
Other disallowed intangibles			(33,234)	
Disallowed servicing intangible			(6,436)	
Disallowed deferred taxes			(3,479)	
Total tier 1 capital			\$ 1,129,630	
Less: Qualifying tier 1 capital			(60,000)	
Total tier 1 common capital (e)			\$ 1,069,630	
Tier 1 common risk-based capital ratio (e)/(c)			12.75	%
COMMON EQUITY TIER 1 CAPITAL (CET1) - BASEL III				
Total shareholders' equity	\$ 1,520,208	\$ 1,473,057		

Edgar Filing: TRUSTMARK CORP - Form 10-K

AOCI-related adjustments		45,798		45,394	
CET1 adjustments and deductions:					
Goodwill net of associated deferred tax liabilities (DTLs)		(347,442)		(348,873)	
Other adjustments and deductions for CET1 (2)		(8,637)		(7,980)	
CET1 capital	(f)	1,209,927		1,161,598	
Additional tier 1 capital instruments plus related surplus		60,000		60,000	
Less: Additional tier 1 capital deductions		(267)		(1,063)	
Additional tier 1 capital		59,733		58,937	
Tier 1 capital		\$1,269,660		\$1,220,535	
Common equity tier 1 risk-based capital ratio	(f)/(c)	12.16	%	12.57	%

(1) Calculation = net income adjusted for intangible amortization/total average tangible equity

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

Significant Non-routine Transactions

Trustmark discloses certain non-GAAP financial measures, including net income adjusted for significant non-routine transactions, because Management uses these measures for business planning purposes, including to manage Trustmark's business against internal

projected results of operations and to measure Trustmark's performance. Trustmark views net income adjusted for significant non-routine transactions as a measure of its core operating business, which excludes the impact of the items detailed below, as these items are generally not operational in nature. This non-GAAP measure also provides another basis for comparing period-to-period results as presented in the accompanying selected financial data table and the audited consolidated financial statements by excluding potential differences caused by non-operational and unusual or non-recurring items. Readers are cautioned that these adjustments are not permitted under GAAP. Trustmark encourages readers to consider its audited consolidated financial statements and the notes related thereto, included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report, in their entirety, and not to rely on any single financial measure.

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

	Years Ended December 31,									
	2016		2015		2014					
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS				
Net Income (GAAP)	\$108,411	\$ 1.599	\$116,038	\$ 1.714	\$123,562	\$ 1.828				
Significant non-routine transactions (net of taxes):										
Non-routine early retirement program expense	6,049	0.089	—	—	—	—				
Non-routine pension expense due to de-risking										
strategy in Plan assets portfolio	820	0.012	—	—	—	—				
	6,869	0.101	—	—	—	—				
Net Income adjusted for significant non-routine transactions (Non-GAAP)	\$115,280	\$ 1.700	\$116,038	\$ 1.714	\$123,562	\$ 1.828				
	Reported	Adjusted	Reported	Adjusted	Reported	Adjusted				
	(GAAP)	(Non-GAAP)	(GAAP)	(Non-GAAP)	(GAAP)	(Non-GAAP)				
Return on average equity	7.14	%	7.59	%	7.94	% n/a	8.83	%	n/a	
Return on average tangible equity	9.99	%	10.60	%	11.36	%	n/a	12.97	%	n/a
Return on average assets	0.84	%	0.89	%	0.95	%	n/a	1.03	%	n/a

Non-routine Early Retirement Program Expense

During the second quarter of 2016, Trustmark completed a voluntary ERP as a proactive measure to manage noninterest expense. Included in noninterest expense for the year ended December 31, 2016 were non-routine expenses related to the ERP totaling \$9.8 million, before taxes, (\$9.6 million included in salaries and employee benefits expense and \$213 thousand included in other expense).

Non-routine Pension Expense

On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan effective December 31, 2016. 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 decreased from 6.0% to 2.5%, which resulted in increased periodic benefit costs for the Plan. Included in salaries and employee benefits expense for the year ended December 31, 2016, were non-routine pension expenses related to the de-risking investment strategy for the plan assets totaling \$1.3 million, before tax.

Results of Operations

Net Interest Income

Net interest income is the principal component of Trustmark's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates, as well as volume and mix changes in earning assets and interest-bearing liabilities, can materially impact net interest income. The net interest margin is computed by dividing fully taxable equivalent (FTE) net interest income by average interest-earning assets and measures how effectively Trustmark utilizes its interest-earning assets in relationship to the interest cost of funding them. The accompanying Yield/Rate Analysis Table shows the average balances for all assets and liabilities of Trustmark and the interest income or expense associated with earning assets and interest-bearing liabilities. The yields and rates have been computed based upon interest income and expense adjusted to a FTE basis using a 35% federal marginal tax rate for all periods shown. Loans on nonaccrual have been included in the average loan balances, and interest collected prior to these loans having been placed on

nonaccrual has been included in interest income. Loan fees included in interest associated with the average loan balances are immaterial.

Net interest income-FTE for 2016 decreased \$2.3 million, or 0.6%, when compared with 2015. The net interest margin decreased 25 basis points to 3.53% for 2016 when compared to 2015. The decrease in the net interest margin reflected the prolonged low interest rate environment in the United States, and was primarily the result of decreases in the yield on acquired loans principally due to declines in accretion income and recoveries on settlement of debt related to acquired loans, downward repricing of LHFI in response to increased competitive pricing pressures and decreases in the yield on taxable securities. The net interest margin excluding acquired loans, which equals the reported net interest income-FTE excluding interest and fees on acquired loans, as a percentage of average earning assets excluding average acquired loans, for 2016 was 3.37%, a decrease of 9 basis points when compared to 2015, due to similar factors as discussed above.

Average interest-earning assets for 2016 were \$11.485 billion compared to \$10.791 billion for 2015 an increase of \$693.4 million, or 6.4%. The growth in average earning assets during 2016 was primarily due to an increase in average loans (LHFS and LHFI) of \$846.3 million, or 12.5%, partially offset by a decrease in average acquired loans of \$130.9 million, or 28.3% and a decline in average total securities of \$38.7 million, or 1.1%. The increase in average loans (LHFS and LHFI) was primarily attributable to the \$759.8 million, or 10.7%, increase in the LHFI portfolio when balances at December 31, 2016 are compared to balances at December 31, 2015. This increase represented net growth across all of Trustmark's market regions and all categories in its LHFI portfolio, with the exception of other loans. The decline in average acquired loans during 2016 was primarily attributable to anticipated pay-offs of acquired loans, principally related to the BancTrust merger. The decline in average total securities during 2016 was primarily attributable to calls, maturities and pay-downs of the loans underlying these securities.

During 2016, interest and fees on LHFS and LHFI-FTE increased \$27.5 million, or 9.5%, when compared to 2015, due to growth in LHFI, while the yield on loans (LHFS and LHFI) fell 12 basis points to 4.16% as a result of downward repricing of LHFI due to the current interest rate environment and related competitive pressures. During 2016, interest and fees on acquired loans decreased \$21.0 million, or 41.1%, compared to 2015, due to declines in accretion income and recoveries on settlement of debt as acquired loans continue to pay-down as anticipated. As a result, the yield on acquired loans decreased to 9.09% compared to 11.06% during 2015. During 2016, interest on securities-taxable decreased \$3.1 million, or 3.9%, and the yield on taxable securities declined 8 basis points to 2.31% principally due to calls, maturities and pay-downs of the underlying loans of higher yielding securities being replaced with lower yielding securities reflecting the current interest rate environment as well as a decline in the yield maintenance payments on prepaid mortgage-backed securities. As a result of these factors, interest income-FTE increased \$1.8 million, or 0.4%, when 2016 is compared to 2015. The impact of these changes is also illustrated by the decline in the yield on total earning assets, which fell from 3.97% for 2015 to 3.75% for 2016, a decrease of 22 basis points.

Average interest-bearing liabilities for 2016 totaled \$8.281 billion compared to \$7.890 billion for 2015, an increase of \$391.0 million, or 5.0%. The increase in average interest-bearing liabilities was attributable to an increase in average long-term FHLB advances partially offset by declines in all other categories of average interest-bearing liabilities. Average long-term FHLB advances increased \$620.8 million during 2016, primarily due to the \$500.0 million long-term FHLB advance obtained from the FHLB of Dallas during December 2015 and the \$250.0 million long-term FHLB advance obtained from the FHLB of Dallas during May 2016. Average interest-bearing deposits for 2016 decreased \$174.5 million, or 2.5%, when compared to 2015, principally due to declines in average time deposits, reflecting Trustmark's continued efforts to reduce high-cost deposit balances and customers continued movement away from longer-term commitments as a result of the low interest rate environment. Average short-term borrowings decreased \$45.1 million, or 10.9%, when 2016 is compared to 2015, which was primarily attributable to a decrease in the amount of short-term FHLB advances obtained from the FHLB of Dallas during 2016 partially offset by the \$500.0 million FHLB advance with the FHLB of Dallas that was reclassified from long-term to short-term during December 2016.

Total interest expense during 2016 increased \$4.1 million, or 20.0%, when compared with 2015, principally due to the increase in other interest expense. Other interest expense increased \$3.0 million, or 42.8%, when 2016 is compared to 2015, primarily due to increases in interest expense on long-term FHLB advances and short-term borrowings. Interest expense on long-term FHLB advances increased \$2.1 million during 2016, while the rate on long-term FHLB advances increased 3 basis points to 0.33% for 2016, reflecting the increase in the outstanding long-term FHLB advances with the FHLB of Dallas. Interest expense on short-term borrowings increased \$836 thousand, or 29.2%, during 2016 primarily due to a \$1.1 million increase in interest expense on short-term FHLB advances, while the rate for short-term borrowings increased 31 basis points to 1.00%. Interest on federal funds purchased and securities sold under reverse repurchase agreements increased \$916 thousand when 2016 is compared to 2015, while the rate on federal funds purchased and securities sold under reverse repurchase agreements increased 19 basis points to 0.35%. The increase in the rate on federal funds purchased and securities sold under reverse repurchase agreements during 2016 was principally due to the increase in rates by the FRB. As a result of these factors, the overall yield on interest-bearing liabilities increased 4 basis points to 0.30% when 2016 is compared with 2015.

Net interest income-FTE for 2015 decreased \$13.0 million, or 3.1%, when compared with 2014. The net interest margin decreased 25 basis points to 3.78% for 2015 when compared to 2014. The decrease in the net interest margin reflected the prolonged low interest rate environment in the United States, and was primarily the result of a downward repricing of LHFI in response to increased competitive pricing pressures and decreases in the yield on acquired loans principally due to declines in accretion income on acquired loans, which was partially offset by lower deposit and short-term borrowing costs. The net interest margin excluding acquired loans, which equals the reported net interest income-FTE excluding interest and fees on acquired loans, as a percentage of average earning assets excluding average acquired loans, for 2015 was 3.46%, a decrease of 6 basis points when compared to 2014, due to similar factors as discussed above.

Average interest-earning assets for 2015 were \$10.791 billion compared to \$10.445 billion for 2014, an increase of \$345.8 million, or 3.3%. The growth in average earning assets during 2015 was primarily due to an increase in average loans (LHFS and LHFI) of \$495.8 million, or 7.9%, and average securities-taxable of \$63.5 million, or 1.9%, partially offset by a decrease in average acquired loans of \$203.5 million, or 30.6%. The increase in average loans (LHFS and LHFI) was primarily attributable to increases in the LHFI portfolio when compared to balances at December 31, 2014. The increase in average securities-taxable was primarily attributable to purchases of U.S. Government-sponsored agency (GSE) guaranteed securities, partially offset by maturities and pay-downs of the loans underlying these securities.

During 2015, interest and fees on LHFS and LHFI-FTE increased \$11.8 million, or 4.3%, when compared to 2014, due to growth in LHFI, while the yield on loans (LHFS and LHFI) fell 15 basis points to 4.28% due to downward repricing of LHFI due to the current interest rate environment and related competitive pressures. During 2015, interest and fees on acquired loans decreased \$25.6 million, or 33.3%, compared to 2014, due to declines in accretion income as acquired loans continue to pay-down as well as a decline in recoveries on loan pay-offs of loans acquired in connection with the February 2013 merger with BancTrust. As a result, the yield on acquired loans decreased to 11.06% compared to 11.52% during 2014. As a result of these factors, interest income-FTE decreased \$14.0 million, or 3.2%, during 2015 compared to 2014. The impact of these changes is also illustrated by the decline in the yield on total earning assets, which fell from 4.24% for 2014 to 3.97% for 2015, a decrease of 27 basis points.

Average interest-bearing liabilities for 2015 totaled \$7.890 billion compared to \$7.785 billion for 2014, an increase of \$104.6 million, or 1.3%. Average interest-bearing deposits for 2015 decreased \$211.3 million, or 3.0%, when compared to 2014, principally due to declines in certificates of deposits, reflecting Trustmark's continued efforts to reduce high-cost deposit balances and customers continued movement away from longer-term commitments as a result of the low interest rate environment. The combination of average federal funds purchased, securities sold under repurchase agreements and other borrowings increased \$315.8 million, or 43.4%, when 2015 is compared to 2014, which was primarily attributable to increased balances of short-term FHLB advances obtained from the FHLB of Dallas as well as federal funds purchased and securities sold under repurchase agreements as Trustmark chose to utilize these less costly sources of funding. Total interest expense during 2015 decreased \$1.1 million, or 5.0%, when compared with 2014, principally due to the \$2.7 million, or 17.8%, decrease in interest expense on deposit accounts as a result of the decline in interest-bearing deposits. As a result of these factors, the overall yield on interest-bearing liabilities declined 2 basis points to 0.26% when 2015 is compared with 2014.

Edgar Filing: TRUSTMARK CORP - Form 10-K

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

	Years Ended December 31,			2015			2014		
	2016		Yield/	Average		Yield/	Average		Yield/
	Average	Interest	Rate	Average	Interest	Rate	Average	Interest	Rate
	Balance			Balance			Balance		
Assets									
Interest-earning assets:									
Federal funds sold and securities purchased									
under reverse repurchase agreements	\$1,105	\$14	1.27%	\$835	\$8	0.96%	\$3,638	\$23	0.63%
Securities available for sale:									
Taxable	2,236,663	53,005	2.37%	2,231,507	55,621	2.49%	2,187,258	55,722	2.55%
Nontaxable	97,942	3,982	4.07%	118,579	4,763	4.02%	136,532	5,302	3.88%
Securities held to maturity:									
Taxable	1,120,267	24,609	2.20%	1,140,182	25,109	2.20%	1,120,886	24,426	2.18%
Nontaxable	34,616	1,672	4.83%	37,883	1,888	4.98%	39,975	2,189	5.48%
Loans (LHFS and LHFI)									
Acquired loans	7,592,223	316,007	4.16%	6,745,970	288,538	4.28%	6,250,151	276,775	4.43%
Other earning assets	331,736	30,144	9.09%	462,602	51,152	11.06%	666,102	76,736	11.52%
Total interest-earning assets	70,029	988	1.41%	53,613	1,579	2.95%	40,828	1,524	3.73%
Cash and due from banks	11,484,581	430,421	3.75%	10,791,171	428,658	3.97%	10,445,370	442,697	4.24%
Other assets	291,868			275,246			316,843		
Allowance for loan losses	1,243,985			1,286,139			1,345,438		
Total Assets	(82,414)			(82,361)			(79,621)		
	\$12,938,020			\$12,270,195			\$12,028,030		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	\$1,866,225	3,297	0.18%	\$1,901,478	3,235	0.17%	\$1,837,496	3,151	0.17%
Savings deposits	3,140,060	2,657	0.08%	3,124,393	2,547	0.08%	3,116,251	2,949	0.09%
Time deposits	1,665,516	6,794	0.41%	1,820,437	6,816	0.37%	2,103,813	9,223	0.44%

Federal funds
purchased and
securities sold

under repurchase agreements	495,197	1,717	0.35 %	503,077	801	0.16 %	435,324	550	0.13 %
Short-term borrowings	370,008	3,695	1.00 %	415,081	2,859	0.69 %	173,759	1,506	0.87 %
Long-term FHLB advances	634,300	2,104	0.33 %	13,533	49	0.36 %	6,837	45	0.66 %
Subordinated notes	47,662	2,775	5.82 %	49,951	2,895	5.80 %	49,919	2,895	5.80 %
Junior subordinated debt securities	61,856	1,508	2.44 %	61,856	1,258	2.03 %	61,856	1,227	1.98 %
Total interest-bearing liabilities	8,280,824	24,547	0.30 %	7,889,806	20,460	0.26 %	7,785,255	21,546	0.28 %
Noninterest-bearing demand deposits	2,996,886			2,781,682			2,711,727		
Other liabilities	142,355			138,057			132,103		
Shareholders' equity	1,517,955			1,460,650			1,398,945		
Total Liabilities and Shareholders' Equity	\$12,938,020			\$12,270,195			\$12,028,030		
Net Interest Margin		405,874	3.53 %		408,198	3.78 %		421,151	4.03 %
Less tax equivalent adjustments:									
Investments		1,979			2,328			2,622	
Loans		16,362			14,105			13,193	
Net Interest Margin per Income									
Statements		\$387,533			\$391,765			\$405,336	

Edgar Filing: TRUSTMARK CORP - Form 10-K

The table below shows the change from year to year for each component of the tax equivalent net interest margin in the amount generated by volume changes and the amount generated by changes in the yield or rate (tax equivalent basis) for the periods presented (\$ in thousands):

	2016 Compared to 2015			2015 Compared to 2014		
	Increase (Decrease) Due To:			Increase (Decrease) Due To:		
	Volume	Yield/ Rate	Net	Volume	Yield/ Rate	Net
Interest earned on:						
Federal funds sold and securities purchased under						
reverse repurchase agreements	\$3	\$3	\$6	\$(23)	\$8	\$(15)
Securities available for sale:						
Taxable	125	(2,741)	(2,616)	1,166	(1,267)	(101)
Nontaxable	(839)	58	(781)	(723)	184	(539)
Securities held to maturity:						
Taxable	(500)	—	(500)	446	237	683
Nontaxable	(160)	(56)	(216)	(110)	(191)	(301)
Loans, net of unearned income (LHFS and LHFI)	35,684	(8,215)	27,469	21,385	(9,622)	11,763
Acquired loans	(12,891)	(8,117)	(21,008)	(22,627)	(2,957)	(25,584)
Other earning assets	392	(983)	(591)	415	(360)	55
Total interest-earning assets	21,814	(20,051)	1,763	(71)	(13,968)	(14,039)
Interest paid on:						
Interest-bearing demand deposits						
Interest-bearing demand deposits	(76)	138	62	84	—	84
Savings deposits	110	—	110	5	(407)	(402)
Time deposits	(651)	629	(22)	(1,104)	(1,303)	(2,407)
Federal funds purchased and securities sold under						
repurchase agreements	(13)	929	916	101	150	251
Short-term borrowings	(338)	1,174	836	1,722	(369)	1,353
Long-term FHLB advances	2,055	—	2,055	4	—	4
Subordinated notes	(130)	10	(120)	—	—	—
Junior subordinated debt securities	—	250	250	—	31	31
Total interest-bearing liabilities	957	3,130	4,087	812	(1,898)	(1,086)
Change in net interest income on a tax						
equivalent basis	\$20,857	\$(23,181)	\$(2,324)	\$(883)	\$(12,070)	\$(12,953)

The change in interest due to both volume and yield or rate has been allocated to change due to volume and change due to yield or rate in proportion to the absolute value of the change in each. Tax-exempt income has been adjusted to a tax equivalent basis using a tax rate of 35% for each of the three years presented. The balances of nonaccrual loans and related income recognized have been included for purposes of these computations.

Provision for Loan Losses, LHFI

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

recoveries and growth in the LHFI portfolio among other factors. Accordingly, the amount of the provision reflects the necessary increases in the allowance for loan losses, LHFI related to newly identified criticized LHFI as well as the actions taken related to other LHFI including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools. The provision for loan losses, LHFI totaled \$11.0 million for 2016, \$8.4 million for 2015 and \$1.2 million for 2014. See the section captioned "Allowance for Loan Losses, LHFI" for further analysis of the provision for loan losses, LHFI.

Provision for Loan Losses, Acquired Loans

The provision for loan losses, acquired loans is recognized subsequent to acquisition to the extent it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when actual losses of unpaid principal incurred exceed previous loss expectations to date, or future cash flows previously expected to be collectible are no longer probable of collection. The provision for loan losses, acquired loans is reflected as a valuation allowance

Edgar Filing: TRUSTMARK CORP - Form 10-K

netted against the carrying value of the acquired loans accounted for under FASB ASC Topic 310-30. The increase in the provision for loan losses, acquired loans when 2016 is compared to 2015 was principally due to changes in expectations based on the periodic re-estimations performed during the year, primarily related to loans acquired from BancTrust. The decrease in the provision for loan losses, acquired loans during 2015 was principally due to an increase in recoveries of acquired loans, partially offset by increased charge-offs during 2015 compared to 2014, and changes in expectations based on the periodic re-estimations performed during the period, primarily related to loans acquired from BancTrust.

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

	Years Ended December 31,		
	2016	2015	2014
BancTrust	\$4,143	\$3,899	\$6,672
Bay Bank	(50)	(24)	482
Heritage	(336)	(450)	(983)
Total provision for loan losses, acquired loans	\$3,757	\$3,425	\$6,171

Noninterest Income

Noninterest income represented 31.0%, 30.7% and 29.9% of total revenue, before securities (losses) gains, net in 2016, 2015 and 2014, respectively. The following table provides the comparative components of noninterest income for the periods presented (\$ in thousands):

	Years Ended December 31,					
	2016		2015		2014	
	Amount	% Change	Amount	% Change	Amount	% Change
Service charges on deposit accounts	\$45,253	-4.5 %	\$47,366	-2.7 %	\$48,671	-5.6 %
Bank card and other fees	27,906	-1.4 %	28,298	-14.2 %	32,966	-8.3 %
Mortgage banking, net	28,212	-6.5 %	30,176	21.8 %	24,780	-26.0 %
Insurance commissions	36,764	0.9 %	36,424	8.8 %	33,468	8.6 %
Wealth management	30,492	-2.8 %	31,369	-3.0 %	32,343	9.7 %
Other, net	5,626	n/m	(484)	n/m	614	n/m
Total Noninterest Income before securities (losses) gains, net	174,253	0.6 %	173,149	0.2 %	172,842	-0.3 %
Securities (losses) gains, net	(310)	n/m	—	n/m	300	-38.1 %
Total Noninterest Income	\$173,943	0.5 %	\$173,149	—	\$173,142	-0.4 %

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

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

Service Charges on Deposit Accounts

The decline in service charges on deposit accounts when 2016 is compared to 2015 was principally due to a \$1.5 million, or 4.6%, decrease in NSF and overdraft charges on consumer deposit accounts and a \$436 thousand, or 4.7%, decrease in service charges on consumer deposit accounts. The decline in NSF and overdraft charges on deposit accounts during 2016 was primarily the result of balances in consumer deposit accounts increasing 3.5% during 2016 providing more available funds to complete banking.

The decline in service charges on deposit accounts when 2015 is compared to 2014 was principally due to a \$1.8 million, or 5.1%, decrease in NSF and overdraft charges on consumer deposit accounts and a \$297 thousand, or 15.4%, decrease in NSF and overdraft charges on commercial demand deposit accounts, which was partially offset by a \$585 thousand, or 10.1%, increase in service charges on commercial demand deposit accounts. The decline in NSF and overdraft charges on deposit accounts during 2015 was primarily the result of a decrease in the number of customer transactions that would result in an NSF or overdraft charge as customers have more availability to complete banking transactions through mobile and online banking sites as well as extended hours for making deposits at Trustmark's ATMs.

Bank Card and Other Fees

Bank card and other fees consist primarily of fees earned on bank card products as well as fees on various bank products and services and safe deposit box fees. Bank card and other fees remained relatively stable when 2016 is compared to 2015 as slight declines in

miscellaneous other bank fees, interchange income and ATM transaction income were partially offset by an increase net revenue related to interest rate swaps entered into with qualified commercial borrowing customers. See the section captioned “Derivatives” for additional information related to the derivative products offered to qualified commercial borrowing customers. The decrease in bank card and other fees for 2015 when compared to 2014 was primarily the result of declines in interchange income.

The FRB has issued rules under the EFTA, as amended by the Dodd-Frank Act, to limit interchange fees that an issuer may receive or charge for an electronic debit card transaction. See the section captioned “Debit Interchange Regulation” included in Part I. Item 1. – Business – of this report. As a result of the regulations, Trustmark’s noninterest income declined \$11.5 million when 2015 is compared to 2014.

Mortgage Banking, Net

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

	Years Ended December 31,		2015		2014	
	2016	%	2015	%	2014	%
	Amount	Change	Amount	Change	Amount	Change
Mortgage servicing income, net	\$20,724	5.6 %	\$19,625	5.4 %	\$18,619	4.1 %
Change in fair value-MSR from runoff	(10,106)	6.1 %	(9,527)	11.2 %	(8,566)	-12.6 %
Gain on sales of loans, net	20,535	14.3 %	17,965	66.8 %	10,770	-59.2 %
Other, net	(84)	n/m	233	-74.2 %	904	n/m
Mortgage banking income before hedge ineffectiveness	31,069	9.8 %	28,296	30.2 %	21,727	-27.1 %
Change in fair value-MSR from market changes	(406)	n/m	1,577	n/m	(7,203)	n/m
Change in fair value of derivatives	(2,451)	n/m	303	-97.0 %	10,256	n/m
Net hedge ineffectiveness	(2,857)	n/m	1,880	-38.4 %	3,053	-17.6 %
Mortgage banking, net	\$28,212	-6.5 %	\$30,176	21.8 %	\$24,780	-26.0 %

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

The decrease in net revenue from mortgage banking for 2016 when compared to 2015 was principally due to a net negative hedge ineffectiveness for 2016 compared to a net positive hedge ineffectiveness for 2015, partially offset by increases in gain on sales of loans, net and mortgage servicing income, net. The increase in net revenue from mortgage banking during 2015 was principally due to an increase in gain on sales of loans, net partially offset by a decline in the net positive hedge ineffectiveness. Mortgage loan production increased \$124.2 million, or 8.4%, during 2016 to total \$1.606 billion, which continued to reflect increased mortgage lending activity due to low mortgage rates. Mortgage loan production increased \$290.0 million, or 24.3%, during 2015 to total \$1.482 billion, reflecting industry-wide improvements in real estate and construction activity as well as increased mortgage lending activity due to low mortgage rates. In addition, during the second quarter of 2015, Trustmark expanded its mortgage banking capabilities with the addition of ten mortgage producers in the Alabama and Florida market regions. Loans serviced for others totaled \$6.371 billion at December 31, 2016, compared with \$5.971 billion at December 31, 2015, and \$5.636 billion at December 31, 2014.

Representing a significant component of mortgage banking income is gain on sales of loans, net. The increase in the gain on sales of loans, net when 2016 is compared to 2015 and when 2015 is compared to 2014 resulted from both higher profit margins from secondary marketing activities as well as higher volumes of loans sold. Loan sales

increased \$138.0 million during 2016 to total \$1.384 billion compared to an increase of \$332.8 million during 2015 to total \$1.246 billion. The increase in loans sales during 2016 and 2015 was due to increased mortgage lending activity and Trustmark's decision during 2015 to sell the vast majority of these lower-rate, longer-term home mortgages in the secondary market, rather than replacing the run-off in its single-family loan portfolio.

Other mortgage banking income, net includes the net valuation adjustment recognized in income in accordance with FASB ASC Topic 825, "Financial Instruments," for the fair value of LHFS accounted for under the fair value option and the net valuation adjustment recognized in income in accordance with FASB ASC Topic 815, "Derivatives and Hedging," for the fair value of interest rate lock commitments and forward sales contracts. Valuation adjustments are primarily the result of changes in volume and profit margins for the related instruments during the period. The slight decrease in other mortgage banking income, net during 2016 was the result of a negative net valuation adjustment in the fair value of LHFS, interest rate lock commitments and forward sales contracts for 2016 compared to a positive net valuation adjustment for 2015, which was principally due to higher increases in volumes during 2015 offset partially by lower declines in profit margins during 2016. The decrease in other mortgage banking income, net when comparing 2015 with 2014 primarily resulted from a decrease in the net valuation adjustment in the fair value of LHFS, interest rate lock commitments and forward sales contracts during the period, which was principally due to higher increases in profit margins during 2014 offset partially by higher increases in volumes during 2015. For additional information regarding the LHFS accounted for under

the fair value option, please see the section captioned “Fair Value Option” included in Note 19 – Fair Value set forth in Part II. Item 8. – Financial Statements and Supplementary Data – of this report. See the section captioned “Derivatives” for further discussion of the mortgage related derivative instruments.

Other Income, Net

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

	Years Ended December 31,					
	2016		2015		2014	
	Amount	% Change	Amount	% Change	Amount	% Change
Partnership amortization for tax credit purposes	\$(9,916)	-1.3 %	\$(10,050)	-15.0 %	\$(11,824)	-4.4 %
Decrease in FDIC indemnification asset	(369)	-89.5 %	(3,513)	22.2 %	(2,874)	-51.3 %
Increase in life insurance cash surrender value	6,891	2.8 %	6,702	-8.7 %	7,340	98.3 %
Other miscellaneous income	9,020	41.4 %	6,377	-20.0 %	7,972	20.9 %
Total other, net	\$5,626	n/m	\$(484)	n/m	\$614	n/m

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

The increase in other income, net when 2016 is compared to 2015, was primarily due to a decrease in the net reduction of the FDIC indemnification asset related to the acquired covered loans and covered other real estate, a net gain on the sale of premises and equipment as a result of the sale of a former bank branch during 2016 compared to a net loss on the sale of premises and equipment recorded during 2015 on the sale of a former bank branch acquired in the BancTrust merger and an increase in other miscellaneous income related to various vendor contract bonuses and settlements, an one-time arrangement fee and merchant service fees received during 2016. The decrease in other income, net during 2015 was primarily the result of a decline in other miscellaneous income due to a net loss on the sale of a former bank branch acquired in the merger with BancTrust during the first quarter of 2015, a decrease in the amount of revenue received during 2015 related to Trustmark’s non-qualified deferred compensation plan and a one-time arrangement fee received during the second quarter of 2014; a decrease in the net cash surrender value related to Trustmark’s supplemental employee retirement plan and the increase in the net reduction of the FDIC indemnification asset primarily due to increases in the amortization of the FDIC indemnification asset and the negative valuation adjustments for covered acquired loans, which was partially offset by the decrease in partnership amortization for tax credit purposes.

Noninterest Expense

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

	Years Ended December 31,					
	2016		2015		2014	
	Amount	% Change	Amount	% Change	Amount	% Change
Salaries and employee benefits	\$239,637	4.1 %	\$230,198	1.5 %	\$226,694	2.2 %
Services and fees	58,695	2.0 %	57,534	1.7 %	56,598	5.0 %
Net occupancy-premises	24,982	-1.3 %	25,318	-4.3 %	26,468	2.0 %

Edgar Filing: TRUSTMARK CORP - Form 10-K

Equipment expense	24,225	1.5	%	23,859	—		23,860	-2.8	%
Other real estate expense:									
Write-downs	4,463	7.0	%	4,171	-50.7	%	8,458	18.2	%
Net (gain)/loss on sale	(7,030)	74.0	%	(4,040)	8.6	%	(3,721)	n/m	
Carrying costs	3,153	-33.9	%	4,772	-27.5	%	6,584	-7.4	%
Total other real estate expense	586	-88.0	%	4,903	-56.7	%	11,321	-24.7	%
FDIC assessment expense	11,243	4.8	%	10,728	5.2	%	10,197	13.3	%
Other expense	47,930	-2.4	%	49,122	-8.8	%	53,867	-17.8	%
Total noninterest expense	\$407,298	1.4	%	\$401,662	-1.8	%	\$409,005	-1.6	%

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

Changes in the various component of noninterest expense are discussed in further detail below. Management considers disciplined expense management a key area of focus in the support of improving shareholder value.

Salaries and Employee Benefits

During the second quarter of 2016, Trustmark completed a voluntary ERP as a proactive measure to manage noninterest expense. As a result of the ERP, 188 of the eligible associates retired from Trustmark by June 30, 2016. The ERP resulted in non-routine expenses totaling \$9.8 million (\$9.6 million included in salaries and employee benefits expense and \$213 thousand included in other expense) during 2016. As a result of the ERP, Trustmark realized cost savings in salaries and employee benefits expense of \$4.4 million during 2016.

On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan, a noncontributory tax-qualified defined benefit pension plan, effective December 31, 2016. 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 decreased from 6.0% to 2.5%, which resulted in increased periodic benefit costs for the Plan. Included in salaries and employee benefits expense for the year ended December 31, 2016, were non-routine pension expenses related to the de-risking investment strategy for the plan assets totaling \$1.3 million.

The increase in salaries and employee benefits, the largest category of noninterest expense, when 2016 is compared to 2015, was primarily due to non-routine transaction expenses related to the ERP and Plan termination and higher commissions expense as a result of improvements in mortgage loan production, partially offset by cost savings realized related to the ERP. The increase in salaries and employee benefits during 2015 was primarily due to an increase in commission expense as a result of expanded mortgage and insurance production, a net gain recorded during 2014 related to the termination and distribution of the BancTrust Pension Plan, and an increase in expenses related to Trustmark's qualified defined benefit pension plan attributable to lump sum settlements, partially offset by a decline in general incentives expense.

Services and Fees

The increase in services and fees expense when 2016 is compared to 2015, was primarily to due to increases in data processing expenses related to software, other outside services and fees and advertising, partially offset by declines in legal and communications expenses. The increase in services and fees during 2015 was primarily due to higher data processing expenses related to software and legal expense, which were partially offset by declines in outside services and fees, advertising and telephone expenses. During the second quarter of 2015, Trustmark introduced its new consumer mobile banking service, myTrustmarkSM. Trustmark has partnered with third party vendors to employ several security control mechanisms to assure secure access to myTrustmarkSM as well as the security of the data processing and storage behind the site.

Net Occupancy-Premises

The decrease in net occupancy-premises expense during 2016 was principally due to decreases in utility and janitorial costs partially offset by increases in depreciation of building improvements and buildings rent expense. The decrease in net occupancy-premises expense during 2015 was principally due to declines in ad valorem taxes and building repairs and maintenance expense, which were partially offset by increases in building rental expense.

During 2016, Trustmark consolidated nine branch offices across the Alabama, Florida and Mississippi market regions, and reallocated a portion of those resources into a new banking center in Tuscaloosa, Alabama, and a new loan production office in Pensacola, Florida. During 2015, Trustmark completed the consolidation of eight banking offices with limited growth opportunities, expanded its mortgage-banking platform with the addition of two new mortgage loan production offices in the Alabama and Florida market regions, and opened two new banking offices in the Alabama market region and one new banking office in the Mississippi market region.

Equipment Expense

The slight increase in equipment expense during 2016 was primarily due to increases in data processing equipment expense partially offset by declines in equipment maintenance contract expense and depreciation of furniture, fixtures and equipment. Equipment expense remained flat when comparing 2015 with 2014.

Other Real Estate Expense

The decrease in other real estate expense for 2016 compared to 2015 was principally due to an increase in the net gain on sales of other real estate and a decrease in other real estate carrying costs. The decrease in other real estate expense during 2015 was principally due to a decrease in the provision for other real estate write-downs as well as declines in other real estate carrying costs. The net gain on sale of other real estate for 2016 totaled \$7.0 million, compared to a net gain on the sale of other real estate of \$4.0 million for 2015 and \$3.7 million for 2014. For additional analysis of other real estate and foreclosure expenses, please see the section captioned "Nonperforming Assets, Excluding Acquired Loans and Covered Other Real Estate."

FDIC Assessment Expense

The increase in FDIC assessment expense for 2016 was primarily due to a projected increase in Trustmark's assessment rate during the first half of the year due to an increase in FDIC defined higher-risk assets partially offset by a projected decline in the assessment rate during the last part of 2016 due to changes in the assessment rate under a revised FDIC rule, which became effective on July 1, 2016. The increase in FDIC assessment expense for 2015 primarily resulted from the increase in Trustmark's assessment base.

As required by the Dodd-Frank Act, the FDIC revised the deposit insurance assessment system to base assessments on the average total consolidated assets of insured depository institutions less the average tangible equity during the assessment period. In addition, the Dodd-Frank Act requires the minimum reserve ratio for the Deposit Insurance Fund (DIF) be increased from 1.15% to 1.35% of estimated insurable deposits, or the comparable percentage of the assessment base, by September 30, 2020. In March 2016, the Board of Directors of the FDIC approved a final rule to increase the DIF to the statutorily required minimum level of 1.35%. Under the rule adopted by the FDIC in 2011, regular assessment rates for all banks decrease once the reserve ratio reaches 1.15%. On August 30, 2016, the FDIC announced that the reserve ratio was 1.17% as of June 30, 2016. The final rule approved in March 2016 imposes a surcharge of 4.5 cents per \$100 of the assessment base, after making certain adjustments, on banks with at least \$10.0 billion in assets. The FDIC expects the reserve ratio will likely reach 1.35% after approximately two years of payments of these surcharges. The final rule became effective and surcharges began on July 1, 2016. Trustmark expects that its FDIC assessment expense will decline under this final rule as the lower regular assessment rates and the allowable adjustments will more than offset the surcharge of 4.5 cents per \$100 of assessment base.

Other Expense

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

	Years Ended December 31,		2015		2014	
	2016	%	2015	%	2014	%
	Amount	Change	Amount	Change	Amount	Change
Loan expense	\$12,226	-4.7 %	\$12,835	-0.9 %	\$12,953	-14.1 %
Amortization of intangibles	6,866	-12.2 %	7,819	-10.7 %	8,756	-0.7 %
Other miscellaneous expense	28,838	1.3 %	28,468	-11.5 %	32,158	-4.7 %
Total other expense	\$47,930	-2.4 %	\$49,122	-8.8 %	\$53,867	-17.8 %

The decline in other expense when 2016 is compared to 2015 was primarily due to decreases in franchise taxes, the amortization of the non-taxable core deposit intangible asset and loan expenses, partially offset by increases in customer related fraud losses and a property valuation adjustment recorded during 2016 related to properties transferred to assets held for sale. During 2016, Trustmark continued its measured approach to the optimization of its retail delivery channels by consolidated nine branch offices across the Alabama, Florida and Mississippi market regions, and reallocated a portion of those resources into a new banking center in Tuscaloosa, Alabama, and a new loan production office in Pensacola, Florida. Seven of the closed branches as well as two pieces of property previously purchased in anticipation of a future branch were transferred to assets held for sale during 2016 at the lower of the current book value or the fair value less costs to sell. A property valuation adjustment of \$750 thousand was recorded as a result of transferring these properties to assets held for sale.

The decline in other expenses during 2015 was principally due to declines in other miscellaneous expenses primarily resulting from a legal reserve recorded during 2014 and decreases in franchise taxes and customer related fraud losses as well as a decline in the amortization of the core deposit intangible asset.

Results of Segment Operations

Trustmark's operations are managed along three operating segments: General Banking Division, Wealth Management Division and Insurance Division. A description of each segment and the methodologies used to measure financial performance and financial information by reportable segment are included in Note 21 – Segment Information located in Part II, Item 8. – Financial Statements and Supplementary Data – of this report.

51

The following table provides the net income by reportable segment for the periods presented (\$ in thousands):

	Years Ended December 31,		
	2016	2015	2014
General Banking	\$99,083	\$106,738	\$114,870
Wealth Management	4,124	3,850	4,222
Insurance	5,204	5,450	4,470
Consolidated Net Income	\$108,411	\$116,038	\$123,562

General Banking

Net interest income for the General Banking Division for 2016 decreased \$4.5 million, or 1.1%, when compared with 2015. The decrease in net interest income was principally due to declines in interest and fees on acquired loans and interest on taxable securities and an increase in other interest expense, which were partially offset by an increase in interest and fees on LHFS and LHFI. Net interest income for the General Banking Division for 2015 decreased \$13.1 million, or 3.2%, when compared with 2014. The decline in net interest income was mostly due to declines in interest and fees on acquired loans, which was partially offset by an increase in interest and fees on LHFS and LHFI and declines in the cost of interest-bearing deposits. The provision for loan losses, net during 2016 totaled \$14.7 million compared with \$11.8 million during 2015 and \$7.4 million during 2014. For more information on these net interest income items, please see the sections captioned “Financial Highlights” and “Results of Operations.”

Noninterest income for the General Banking Division increased \$1.6 million, or 1.5%, during 2016 compared to a decrease of \$2.0 million, or 1.8%, during 2015. Noninterest income for the General Banking Division represented 21.7% of total revenue for 2016, 21.2% for 2015 and 21.0% for 2014. Noninterest income for the General Banking Division includes service charges on deposit accounts; bank card and other fees; mortgage banking, net; other, net and securities (losses) gains, net. For more information on these noninterest income items, please see the analysis included in the section captioned “Noninterest Income.”

Noninterest expense for the General Banking Division increased \$6.3 million, or 1.8%, during 2016 compared to a decrease of \$7.4 million, or 2.1%, during 2015. The increase in noninterest expense for 2016 was principally due to increases in salaries and employee benefits expense, primarily as a result of non-routine expenses related to the ERP, increased commission expense due to improved mortgage loan production and non-routine pension expense resulting from the de-risking strategy for plan assets in anticipation of the termination of the Plan, and services and fees, partially offset by declines in other real estate expense and other expense. For more information on these noninterest expense items, please see the analysis included in the section captioned “Noninterest Expense.”

Wealth Management

During 2016, net income for the Wealth Management Division increased \$274 thousand, or 7.1%, compared to a decrease of \$372 thousand, or 8.8%, during 2015. Net interest income for the Wealth Management Division, which primarily consists of interest income earned on deposit accounts held by the Wealth Management Division, increased \$389 thousand during 2016 compared to a decline of \$514 thousand, or 60.4%, during 2015. Noninterest income, which includes income related to investment management, trust and brokerage services, decreased \$1.1 million, or 3.6%, during 2016, compared to a decrease of \$964 thousand, or 3.0%, during 2015. The decrease in noninterest income for the Wealth Management Division during 2016 was primarily attributable to declines in commissions and annuity income generated by the brokerage services unit and trust fees related to retirement planning and personal estate services, partially offset by growth in trust asset management fee income from mutual funds and custody services. The decrease in noninterest income for the Wealth Management Division during 2015 was primarily

attributable to declines in fixed annuity income and commissions generated by the brokerage services unit and trust management fees, partially offset by growth in asset management fees and variable annuity income generated by the brokerage services unit. Noninterest expense decreased \$1.2 million, or 4.7%, during 2016 compared to a decrease of \$1.4 million, or 5.2%, during 2015. The decrease in noninterest expense for the Wealth Management Division during 2016 was principally due to decreases in salaries and employee benefits, primarily due to lower commissions and salary expense partially offset by an increase in trust incentives expense, and data processing charges. The decrease in noninterest expense for the Wealth Management Division during 2015 was principally due to a legal reserve recorded during 2014.

At December 31, 2016 and 2015, Trustmark held assets under management and administration of \$10.255 billion and \$10.697 billion and brokerage assets of \$1.643 billion and \$1.564 billion, respectively.

Insurance

Net income for the Insurance Division during 2016 decreased \$246 thousand, or 4.5%, compared to an increase of \$980 thousand, or 21.9%, during 2015. Noninterest income for the Insurance Division, which predominately consists of insurance commissions, increased \$340 thousand, or 0.9%, during 2016, compared to an increase of \$3.0 million, or 8.8%, during 2015. The slight increase in

insurance commissions during 2016 was primarily due to new business commission volume primarily in group health coverage and an increase in contingent commissions from insurance companies, which was mostly offset by declines in business commission volume in property and casualty coverage and policy fees and other income. The increase in insurance commissions during 2015 was due to new business commission volume primarily in commercial property and casualty and group health coverage. Growth in new business commission volumes reflected both a continued focus on new business and the addition of experienced account executives with an established book of business during 2015. General business activity in Trustmark's geographic markets continues to improve marginally, resulting in increases in the demand for coverage on inventories, property, equipment, general liability and workers' compensation.

Noninterest expense for the Insurance Division increased \$532 thousand, or 1.9%, during 2016 and \$1.5 million, or 5.5%, during 2015. The slight increase in noninterest expense for the Insurance Division during 2016 was principally due to increases in salaries and insurance expenses. The increase in noninterest expense during 2015 was primarily due to higher commissions and salaries expense resulting from improved performance in the Insurance Division and modest general merit increases and higher services and fees expense resulting from increases in professional fees and software maintenance fees.

During 2016, business conditions improved slightly in the markets served by FBBI. Trustmark performed an annual impairment test of the book value of capital held in the Insurance Division as of October 1, 2016, 2015, and 2014. Based on this analysis, Trustmark concluded that no impairment charge was required. A renewed period of falling prices and suppressed demand for the products of the Insurance Division may result in impairment of goodwill in the future. FBBI's ability to maintain the current income trend is dependent on the success of the subsidiary's continued initiatives to attract new business through cross referrals between practice units and bank relationships and seeking new business in other markets.

Income Taxes

For the year ended December 31, 2016, Trustmark's combined effective tax rate was 22.3% compared to 23.4% in 2015 and 23.8% in 2014. Trustmark invests in partnerships that provide income tax credits on a Federal and/or State basis (i.e., NMTC, low income housing tax credits and historical tax credits). The income tax credits related to these partnerships are utilized as specifically allowed by income tax law and are recorded as a reduction in income tax expense.

Financial Condition

Earning assets serve as the primary revenue streams for Trustmark and are comprised of securities, loans, federal funds sold, securities purchased under reverse repurchase agreements and other earning assets. Average earning assets totaled \$11.485 billion, or 88.8% of total average assets, at December 31, 2016, compared with \$10.791 billion, or 88.0% of total average assets, at December 31, 2015, an increase of \$693.4 million, or 6.4%.

Securities

The securities portfolio is utilized by Management to manage interest rate risk, generate interest income, provide liquidity and use as collateral for public and wholesale funding. Risk and return can be adjusted by altering duration, composition and/or balance of the portfolio. The weighted-average life of the portfolio decreased to 4.1 years at December 31, 2016, compared to 5.2 years at December 31, 2015.

When compared with December 31, 2015, total investment securities decreased by \$17.9 million, or 0.5%, during 2016. This decrease resulted primarily from calls, maturities and pay-downs of the underlying loans of government-sponsored enterprise (GSE) guaranteed securities partially offset by purchases of GSE securities. Trustmark sold \$25.0 million of securities during 2016, which generated a net loss of \$310 thousand, compared to no securities sold during 2015.

During 2013, Trustmark reclassified approximately \$1.099 billion of securities available for sale as securities held to maturity to mitigate the potential adverse impact of a rising interest rate environment on the fair value of the available for sale securities and the related impact on tangible common equity. The 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. 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 December 31, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss (AOCL) in the accompanying balance sheets totaled \$24.2 million (\$14.9 million net of tax) compared to \$34.0 million (\$21.0 million net of tax) at December 31, 2015.

Available for sale securities are carried at their estimated fair value with unrealized gains or losses recognized, net of taxes, in AOCL, a separate component of shareholders' equity. At December 31, 2016, available for sale securities totaled \$2.357 billion, which

represented 67.0% of the securities portfolio, compared to \$2.345 billion, or 66.4%, at December 31, 2015. At December 31, 2016, unrealized losses, net on available for sale securities totaled \$9.5 million compared to unrealized gains, net of \$5.9 million at December 31, 2015. At December 31, 2016, available for sale securities consisted of obligations of states and political subdivisions, GSE guaranteed mortgage-related securities and direct obligations of government agencies and GSEs.

Held to maturity securities are carried at amortized cost and represent those securities that Trustmark both intends and has the ability to hold to maturity. At December 31, 2016, held to maturity securities totaled \$1.159 billion and represented 33.0% of the total securities portfolio, compared with \$1.188 billion, or 33.6%, at December 31, 2015.

The table below indicates the amortized cost of securities available for sale and held to maturity by type at December 31, 2016, 2015 and 2014 (\$ in thousands):

	December 31,		
	2016	2015	2014
Securities available for sale			
U.S. Treasury securities	\$—	\$—	\$100
U.S. Government agency obligations			
Issued by U.S. Government agencies	56,272	68,314	79,788
Issued by U.S. Government sponsored agencies	257	258	32,725
Obligations of states and political subdivisions	113,541	134,719	157,001
Mortgage-backed securities			
Residential mortgage pass-through securities			
Guaranteed by GNMA	43,222	25,602	11,897
Issued by FNMA and FHLMC	638,809	222,899	199,599
Other residential mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	1,271,198	1,584,338	1,655,733
Commercial mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	242,869	278,429	184,394
Asset-backed securities and structured financial products	—	25,003	30,776
Total securities available for sale	\$2,366,168	\$2,339,562	\$2,352,013
Securities held to maturity			
U.S. Government agency obligations			
Issued by U.S. Government sponsored agencies	\$3,647	\$101,782	\$100,971
Obligations of states and political subdivisions	46,303	55,892	63,505
Mortgage-backed securities			
Residential mortgage pass-through securities			
Guaranteed by GNMA	15,478	17,363	19,115
Issued by FNMA and FHLMC	81,299	10,368	11,437
Other residential mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	803,474	820,012	834,176
Commercial mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	208,442	182,401	141,481
Total securities held to maturity	\$1,158,643	\$1,187,818	\$1,170,685

Edgar Filing: TRUSTMARK CORP - Form 10-K

The following table details the maturities of securities available for sale and held to maturity using amortized cost at December 31, 2016, and the weighted-average yield for each range of maturities (tax equivalent basis) (\$ in thousands):

	Maturing		After		After		Yield	Total	
	Within	After One, But Within	Five, Yield	But Within	After	Yield			
	One Year	Five Years	Ten Years	Ten Years	Yield	Yield			
Securities available for sale									
U.S. Government agency obligations									
Issued by U.S. Government agencies	\$—	—	\$—	—	\$ 12,680	2.93 %	\$43,592	2.42 %	\$56,272
Issued by U.S. Government sponsored agencies	—	—	257	3.85 %	—	—	—	—	257
Obligations of states and political subdivisions	33,591	3.80 %	79,323	4.00 %	627	3.95 %	—	—	113,541
Mortgage-backed securities									
Residential mortgage pass-through securities									
Guaranteed by GNMA	—	—	137	3.89 %	1,831	1.66 %	41,254	2.94 %	43,222
Issued by FNMA and FHLMC	3	4.51 %	41	2.53 %	91,841	2.35 %	546,924	1.92 %	638,809
Other residential mortgage-backed securities									
Issued or guaranteed by FNMA, FHLMC, or GNMA	392	5.00 %	8,926	2.00 %	51,977	2.60 %	1,209,903	2.40 %	1,271,198
Commercial mortgage-backed securities									

Edgar Filing: TRUSTMARK CORP - Form 10-K

Issued or guaranteed by FNMA,									
FHLMC, or GNMA	—	—	95,118	2.92 %	138,641	2.32 %	9,110	2.71 %	242,869
Total securities available for sale	\$33,986	3.81 %	\$ 183,802	3.34 %	\$ 297,597	2.41 %	\$ 1,850,783	2.27 %	\$ 2,366,168
Securities held to maturity									
U.S. Government agency obligations									
Issued by U.S. Government									
sponsored agencies	\$—	—	\$—	—	\$ 3,647	2.53 %	\$—	—	\$ 3,647
Obligations of states and political subdivisions	145	8.01 %	35,983	5.25 %	10,175	5.12 %	—	—	46,303
Mortgage-backed securities									
Residential mortgage pass-through securities									
Guaranteed by GNMA	—	—	—	—	—	—	15,478	2.90 %	15,478
Issued by FNMA and FHLMC	—	—	—	—	—	—	81,299	2.19 %	81,299
Other residential mortgage-backed securities									
Issued or guaranteed by FNMA,									
FHLMC, or GNMA	—	—	—	—	—	—	803,474	1.98 %	803,474
Commercial mortgage-backed securities									
Issued or guaranteed by FNMA,									
FHLMC, or GNMA	—	—	36,514	2.07 %	129,786	2.29 %	42,142	2.39 %	208,442
Total securities held to maturity	\$ 145	8.01 %	\$ 72,497	3.65 %	\$ 143,608	2.50 %	\$ 942,393	2.03 %	\$ 1,158,643

Mortgage-backed securities and collateralized mortgage obligations are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Management continues to focus on asset quality as one of the strategic goals of the securities portfolio, which is evidenced by the investment of approximately 95% of the portfolio in GSE-backed obligations and other Aaa-rated securities as determined by Moody's Investors Services (Moody's). None of the securities owned by Trustmark are collateralized by assets which are considered sub-prime. Furthermore, outside of stock ownership in the FHLB of Dallas, FHLB of Atlanta and Federal Reserve Bank of Atlanta, Trustmark does not hold any other equity investment in a GSE.

Edgar Filing: TRUSTMARK CORP - Form 10-K

As of December 31, 2016, Trustmark did not hold securities of any one issuer with a carrying value exceeding ten percent of total shareholders' equity, other than certain GSEs which are exempt from inclusion. Management continues to closely monitor the credit quality as well as the ratings of the debt and mortgage-backed securities issued by the GSEs and held in Trustmark's securities portfolio.

The following table presents Trustmark's securities portfolio by amortized cost and estimated fair value and by credit rating, as determined by Moody's, at December 31, 2016 (\$ in thousands):

	Amortized Cost		Estimated Fair Value	
	Amount	%	Amount	%
Securities Available for Sale				
Aaa	\$2,252,627	95.2 %	\$2,241,309	95.1 %
Aa1 to Aa3	75,328	3.2 %	76,666	3.3 %
A1 to A3	186	—	191	—
Baa1 to Baa3	219	—	216	—
Not Rated (1)	37,808	1.6 %	38,300	1.6 %
Total securities available for sale	\$2,366,168	100.0%	\$2,356,682	100.0%
Securities Held to Maturity				
Aaa	\$1,112,341	96.0 %	\$1,109,295	95.9 %
Aa1 to Aa3	33,554	2.9 %	34,852	3.0 %
Baa1 to Baa3	419	—	433	—
Not Rated (1)	12,329	1.1 %	12,466	1.1 %
Total securities held to maturity	\$1,158,643	100.0%	\$1,157,046	100.0%

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

The table above presenting the credit rating of Trustmark's securities is formatted to show the securities according to the credit rating category, and not by category of the underlying security. At December 31, 2016, approximately 95.1% of the available for sale securities and 96.0% of held to maturity securities were rated Aaa.

LHFS

At December 31, 2016, LHFS totaled \$175.9 million, consisting of \$132.0 million of residential real estate mortgage loans in the process of being sold to third parties and \$43.9 million of Government National Mortgage Association (GNMA) optional repurchase loans. At December 31, 2015, LHFS totaled \$160.2 million, consisting of \$124.2 million of residential real estate mortgage loans in the process of being sold to third parties and \$36.0 million of GNMA optional repurchase loans. Please refer to the nonperforming assets table that follows for information on GNMA loans eligible for repurchase which are past due 90 days or more.

During 2015, Trustmark exercised its option to repurchase approximately \$28.5 million 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 were 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 2016.

For additional information regarding the GNMA optional repurchase loans, please see the section captioned “Past Due LHFS” included in Note 5 – LHF and Allowance for Loan Losses, LHF of Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Edgar Filing: TRUSTMARK CORP - Form 10-K

LHFI

The table below provides the carrying value of the LHFI portfolio by loan type for each year of the five-year period ended December 31, 2016 (\$ in thousands):

	December 31, 2016		2015		2014		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans secured by real estate:										
Construction, land development and other land	\$831,437	10.6 %	\$824,723	11.6 %	\$619,877	9.6 %	\$596,889	10.3 %	\$468,975	8.4 %
Secured by 1-4 family residential properties	1,660,043	21.1 %	1,649,501	23.3 %	1,634,397	25.4 %	1,485,564	25.6 %	1,497,480	26.8 %
Secured by nonfarm, nonresidential properties	2,034,176	25.9 %	1,736,476	24.5 %	1,553,193	24.1 %	1,415,139	24.4 %	1,410,264	25.2 %
Other real estate secured	318,148	4.0 %	211,228	3.0 %	253,787	3.9 %	189,362	3.3 %	189,949	3.4 %
Commercial and industrial loans	1,528,434	19.5 %	1,343,211	18.9 %	1,270,350	19.7 %	1,157,614	20.0 %	1,169,513	20.9 %
Consumer loans	170,562	2.2 %	169,135	2.4 %	167,964	2.6 %	165,308	2.8 %	171,660	3.1 %
State and other political subdivision loans	917,515	11.7 %	734,615	10.4 %	602,727	9.3 %	499,963	8.6 %	443,665	7.9 %
Other loans	390,898	5.0 %	422,496	5.9 %	347,174	5.4 %	289,042	5.0 %	241,248	4.3 %
LHFI	\$7,851,213	100.0%	\$7,091,385	100.0%	\$6,449,469	100.0%	\$5,798,881	100.0%	\$5,592,754	100.0%

LHFI increased \$759.8 million, or 10.7%, compared to December 31, 2015. The increase in LHFI during 2016 represented net growth across all five of Trustmark's market regions, primarily in the loans secured by real estate, commercial and industrial loans and state and other political subdivision loans categories.

During 2016, LHFI secured by real estate increased \$421.9 million, or 9.5%, across all five market regions. LHFI secured by construction, land development and other land increased \$6.7 million, or 0.8%, during 2016, principally

due to new loan growth in the other construction, 1-4 family construction and lots categories, partially offset by other construction loans that were moved to the appropriate permanent categories. During 2016, \$524.6 million in other construction loans were moved to the appropriate permanent categories upon completion, including \$323.7 million in non-owner occupied, \$84.1 million in owner occupied, \$116.6 million in multi-family residential and \$283 thousand in state and other political subdivision loans. Excluding all reclassifications between loan categories, growth in other construction loans across all five market regions totaled \$500.1 million for 2016. The 1-4 family construction and lots loan portfolios increased \$19.3 million, or 12.5%, and \$10.9 million, or 21.9%, respectively, during 2016, principally due to growth in Trustmark's Alabama, Mississippi and Tennessee market regions.

The commercial real estate loan portfolio increased \$297.7 million, or 17.1%, during 2016, principally due to other construction loans that moved to permanent financing. Excluding the reclassifications from other construction loans, the commercial real estate loans portfolio declined \$109.3 million, or 6.3%, during 2016. The decrease in the commercial real estate loan portfolio, excluding the other construction reclassifications, was primarily attributable to declines in non-owner occupied loans in Trustmark's Texas, Mississippi and Alabama market regions as well as declines in owner occupied loans in the Mississippi, Texas and Tennessee market regions. Other real estate secured LHFIs increased \$106.9 million, or 50.6%, during 2016, primarily due to multi-family residential loans in Trustmark's Texas, Tennessee, Mississippi and Alabama market regions that were moved from other construction loans to permanent financing. Excluding the reclassifications from other construction loans, other real estate secured LHFIs decreased \$9.7 million, or 4.6%, during 2016 as declines in the Texas, Tennessee and Florida market regions were partially offset by growth in the Mississippi and Alabama market regions. LHFIs secured by 1-4 family residential properties increased \$10.5 million, or 0.6%, during 2016, reflecting growth in the Alabama, Mississippi, and Florida market regions partially offset by declines in the Tennessee and Texas market regions. Trustmark made the decision in 2015 to sell the vast majority of these lower-rate, longer-term home mortgages in the secondary market, rather than replacing the run-off in its single-family loan portfolio. However, in the fourth quarter of 2016, Trustmark decided to replace a portion of the run-off in its single-family loan portfolio due to the increase in rates on mortgage loans resulting in the slight increase in LHFIs secured by 1-4 family residential properties during 2016.

The commercial and industrial loan portfolio increased \$185.2 million, or 13.8%, during 2016, due to growth in the Mississippi, Tennessee, Alabama and Florida market regions, partially offset by declines in the Texas market region. Trustmark's exposure to the energy sector is primarily included in the commercial and industrial loan portfolio in Trustmark's Mississippi and Texas market regions. At December 31, 2016 and 2015, energy-related LHFIs had outstanding balances of approximately \$271.5 million and \$213.0 million, respectively, which represented approximately 3.5% of Trustmark's total LHFIs portfolio at December 31, 2016 compared to approximately 3.0% of the total LHFIs portfolio at December 31, 2015. Trustmark has no loan exposure where the source of repayment, or the underlying security of such exposure, is tied to the realization of value from energy reserves. Should oil prices remain at current levels or below for a prolonged period of time, there is potential for downgrades to occur. Management will continue to monitor this exposure.

State and other political subdivision LHFI increased \$182.9 million, or 24.9%, during 2016 principally due to growth in traditional public finance loans, such as investments that entail the use of tax anticipation notes, public school improvements, facility improvements and renovations, in all five of Trustmark's market regions. The other loan portfolio, which includes lending to nonprofits and real estate investment trusts, decreased \$31.6 million, or 7.5%, during 2016, which represented declines in all of Trustmark's market with the exception of the Alabama market region.

The following table provides information regarding Trustmark's home equity loans and home equity lines of credit which are included in the LHFI secured by 1-4 family residential properties as of December 31, 2016 and 2015 (\$ in thousands):

	December 31,			
	2016	2015		
Home equity loans	\$54,687	\$61,635		
Home equity lines of credit	390,629	376,998		
Percentage of loans and lines for which Trustmark holds first lien	59.7	%	58.9	%
Percentage of loans and lines for which Trustmark does not hold first lien	40.3	%	41.1	%

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

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

Edgar Filing: TRUSTMARK CORP - Form 10-K

The following table presents the LHFI composition by region at December 31, 2016 and reflects a diversified mix of loans by region (\$ in thousands):

LHFI Composition by Region	December 31, 2016					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Loans secured by real estate:						
Construction, land development and other land	\$831,437	\$167,886	\$57,780	\$316,518	\$52,747	\$236,506
Secured by 1-4 family residential properties	1,660,043	79,087	49,393	1,412,078	102,076	17,409
Secured by nonfarm, nonresidential properties	2,034,176	283,756	177,455	908,591	169,499	494,875
Other real estate secured	318,148	28,866	3,511	159,369	17,688	108,714
Commercial and industrial loans	1,528,434	129,621	15,194	795,311	308,380	279,928
Consumer loans	170,562	20,811	3,683	126,711	17,180	2,177
State and other political subdivision loans	917,515	76,228	29,450	564,707	32,714	214,416
Other loans	390,898	37,394	19,140	261,612	38,946	33,806
LHFI	\$7,851,213	\$823,649	\$355,606	\$4,544,897	\$739,230	\$1,387,831

Construction, Land Development and Other Land Loans by Region

Lots	\$60,820	\$14,045	\$18,952	\$23,405	\$2,564	\$1,854
Development	52,669	6,763	5,534	21,421	615	18,336
Unimproved land	111,418	15,436	16,240	45,451	16,011	18,280
1-4 family construction	174,344	41,324	9,058	82,576	2,964	38,422
Other construction	432,186	90,318	7,996	143,665	30,593	159,614
Construction, land development and other land loans	\$831,437	\$167,886	\$57,780	\$316,518	\$52,747	\$236,506

Loans Secured by Nonfarm, Nonresidential Properties by Region

Non-owner occupied:						
Retail	\$279,040	\$74,393	\$36,196	\$96,009	\$21,850	\$50,592
Office	220,750	31,966	30,479	76,745	9,259	72,301
Nursing homes/assisted living	116,307	—	—	109,579	6,728	—
Hotel/motel	227,088	46,007	31,121	62,395	41,794	45,771
Mini-storage	145,456	9,963	5,300	58,430	13,999	57,764
Industrial	121,906	10,159	10,210	20,983	5,467	75,087
Health care	25,937	2,050	826	22,002	—	1,059
Convenience stores	19,624	1,554	—	10,905	993	6,172
Other	73,364	8,031	10,519	25,269	2,804	26,741
Total non-owner occupied loans	1,229,472	184,123	124,651	482,317	102,894	335,487
Owner-occupied:						
Office	146,004	17,886	23,697	74,816	7,041	22,564
Churches	87,031	10,379	2,098	44,962	22,730	6,862
Industrial warehouses	127,544	6,414	3,517	64,274	10,082	43,257
Health care	116,585	22,859	6,830	62,925	4,661	19,310

Edgar Filing: TRUSTMARK CORP - Form 10-K

Convenience stores	94,618	7,732	7,088	54,080	1,168	24,550
Retail	38,173	4,746	5,012	20,720	1,995	5,700
Restaurants	34,741	3,530	912	24,781	3,474	2,044
Auto dealerships	14,909	9,144	41	4,600	1,124	—
Other	145,099	16,943	3,609	75,116	14,330	35,101
Total owner-occupied loans	804,704	99,633	52,804	426,274	66,605	159,388
Loans secured by nonfarm, nonresidential properties	\$2,034,176	\$283,756	\$177,455	\$908,591	\$169,499	\$494,875

Edgar Filing: TRUSTMARK CORP - Form 10-K

Due to the short-term nature of most commercial real estate lending and the practice of annual renewal of commercial lines of credit, approximately one-third of Trustmark's portfolio matures in less than one year. Such a short-term maturity profile is not unusual for a commercial bank and provides Trustmark the opportunity to obtain updated financial information from its borrowers and to actively monitor its borrowers' creditworthiness. This maturity profile is well matched with many of Trustmark's sources of funding, which are also short-term in nature.

The following table provides information regarding Trustmark's LHFI maturities by loan type at December 31, 2016 (\$ in thousands):

	Maturing			Total
	Within One Year or Less	One Year Through Five Years	After Five Years	
Loans secured by real estate:				
Construction, land development and other land	\$494,840	\$263,116	\$73,481	\$831,437
Secured by 1-4 family residential properties	507,211	224,072	928,760	1,660,043
Other real estate secured	881,524	1,143,136	327,664	2,352,324
Commercial and industrial loans	754,558	647,437	126,439	1,528,434
Consumer loans	48,604	115,483	6,475	170,562
Other loans	406,623	350,592	551,198	1,308,413
LHFI	\$3,093,360	\$2,743,836	\$2,014,017	\$7,851,213

The following table provides information regarding Trustmark's LHFI maturities by interest rate sensitivity at December 31, 2016 (\$ in thousands):

Loan Type	Maturing			Total
	Within One Year or Less	One Year Through Five Years	After Five Years	
Predetermined interest rates	\$954,619	\$2,007,342	\$1,851,916	\$4,813,877
Floating interest rates:				
Loans which are at contractual floor	148,976	73,789	3,142	225,907
Loans which are free to float	1,989,765	662,705	158,959	2,811,429
Total floating interest rates	2,138,741	736,494	162,101	3,037,336
LHFI	\$3,093,360	\$2,743,836	\$2,014,017	\$7,851,213

The following tables provide information regarding the interest rate terms of Trustmark's LHFI as of December 31, 2016 and 2015 (\$ in thousands). Trustmark's variable rate LHFI are based primarily on various prime and LIBOR interest rate bases.

December 31, 2016		
Fixed	Variable	Total

Edgar Filing: TRUSTMARK CORP - Form 10-K

Loans secured by real estate:			
Construction, land development and other land	\$210,862	\$620,575	\$831,437
Secured by 1- 4 family residential properties	1,616,289	43,754	1,660,043
Secured by nonfarm, nonresidential properties	1,131,720	902,456	2,034,176
Other real estate secured	167,250	150,898	318,148
Commercial and industrial loans	518,125	1,010,309	1,528,434
Consumer loans	150,304	20,258	170,562
State and other political subdivision loans	827,969	89,546	917,515
Other loans	191,358	199,540	390,898
LHFI	\$4,813,877	\$3,037,336	\$7,851,213

Edgar Filing: TRUSTMARK CORP - Form 10-K

	December 31, 2015		Total
	Fixed	Variable	
Loans secured by real estate:			
Construction, land development and other land	\$311,049	\$513,674	\$824,723
Secured by 1- 4 family residential properties	1,573,640	75,861	1,649,501
Secured by nonfarm, nonresidential properties	1,116,689	619,787	1,736,476
Other real estate secured	160,147	51,081	211,228
Commercial and industrial loans	611,198	732,013	1,343,211
Consumer loans	149,742	19,393	169,135
State and other political subdivision loans	682,028	52,587	734,615
Other loans	210,186	212,310	422,496
LHFI	\$4,814,679	\$2,276,706	\$7,091,385

Allowance for Loan Losses, LHFI

Trustmark's allowance for loan loss methodology is based on guidance provided in SEC Staff Accounting Bulletin (SAB) No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues," as well as other regulatory guidance. Trustmark's allowance has been developed using different factors to estimate losses based upon specific evaluation of identified individual LHFI considered impaired, estimated identified losses on various pools of LHFI and/or groups of risk rated LHFI with common risk characteristics and other external and internal factors of estimated probable losses based on other facts and circumstances. The level of Trustmark's allowance reflects Management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio growth, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. For a complete description of Trustmark's allowance for loan loss methodology and the quantitative and qualitative factors included in the valuation allowance, please see Note 5 – LHFI and Allowance for Loan Losses, LHFI included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Edgar Filing: TRUSTMARK CORP - Form 10-K

The table below illustrates the changes in Trustmark's allowance for loan losses, LHFI as well as Trustmark's loan loss experience for the periods presented (\$ in thousands):

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Balance at beginning of period	\$67,619	\$69,616	\$66,448	\$78,738	\$89,518
LHFI charged off:					
Construction, land development and other land loans	(311)	(2,435)	(1,100)	(1,441)	(3,480)
Loans secured by 1-4 family residential properties	(1,319)	(2,473)	(2,505)	(1,298)	(5,532)
Loans secured by nonfarm, nonresidential properties	(3,067)	(1,439)	(390)	(1,002)	(5,410)
Other loans secured by real estate	(27)	(24)	(277)	(910)	(1,601)
Commercial and industrial loans	(6,602)	(8,081)	(2,092)	(1,371)	(6,922)
Consumer loans	(1,864)	(2,171)	(1,965)	(2,425)	(3,082)
State and other political subdivision loans	—	—	—	—	—
Other loans	(5,740)	(5,846)	(4,897)	(5,031)	(5,349)
Total charge-offs	(18,930)	(22,469)	(13,226)	(13,478)	(31,376)
Recoveries on LHFI previously charged off:					
Construction, land development and other land loans	1,380	1,773	3,608	3,077	—
Loans secured by 1-4 family residential properties	1,122	920	922	427	435
Loans secured by nonfarm, nonresidential properties	976	605	944	225	—
Other loans secured by real estate	7	136	—	229	—
Commercial and industrial loans	732	1,761	2,657	2,298	3,916
Consumer loans	4,007	3,289	3,883	4,798	6,211
State and other political subdivision loans	—	—	—	—	—
Other loans	3,395	3,613	3,169	3,555	3,268
Total recoveries	11,619	12,097	15,183	14,609	13,830
Net (charge-offs) recoveries	(7,311)	(10,372)	1,957	1,131	(17,546)
Provision for loan losses, LHFI	10,957	8,375	1,211	(13,421)	6,766
Balance at end of period	\$71,265	\$67,619	\$69,616	\$66,448	\$78,738

Percentage of net charge-offs (recoveries) during

period to average loans (LHFS and LHFI)

outstanding during the period 0.10 % 0.15 % -0.03 % -0.02 % 0.30 %

At December 31, 2016, the allowance for loan losses, LHFI, was \$71.3 million, an increase of \$3.6 million, or 5.4%, when compared with December 31, 2015. The increase in the allowance for loan loss during 2016 was principally due to an increase in the required reserve for commercial LHFI across all five of Trustmark's market regions as a result of loan growth, partially offset by a decline in the required specific reserve for impaired LHFI in the Mississippi, Texas and Alabama market regions. Total allowance coverage of nonperforming LHFI, excluding impaired LHFI, increased to 267.40% at December 31, 2016, compared to 210.32% at December 31, 2015 due to a \$7.6 million, or 12.6%, increase in the allowance for loan losses, LHFI excluding the specific reserve for LHFI and a \$3.3 million, or 11.5%, decrease in nonperforming LHFI excluding the specifically reviewed impaired LHFI during 2016. Allocation of Trustmark's \$71.3 million allowance for loan losses, LHFI, represented 0.97% of commercial LHFI and 0.68% of consumer and home mortgage LHFI, resulting in an allowance to total LHFI of 0.91% as of December 31, 2016. This compares with an allowance to total LHFI of 0.95% at December 31, 2015, which was allocated to commercial LHFI at 1.05% and to consumer and mortgage LHFI at 0.66%.

Edgar Filing: TRUSTMARK CORP - Form 10-K

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

	Year Ended December 31, 2016					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$67,619	\$5,469	\$2,766	\$43,183	\$5,230	\$10,971
LHFII charged-off	(18,930)	(1,238)	(658)	(10,228)	(1,274)	(5,532)
Recoveries	11,619	333	2,598	6,464	948	1,276
Net (charge-offs) recoveries	(7,311)	(905)	1,940	(3,764)	(326)	(4,256)
Provision for loan losses, LHFII	10,957	2,624	(1,806)	3,591	897	5,651
Balance at end of period	\$71,265	\$7,188	\$2,900	\$43,010	\$5,801	\$12,366

62

	Year Ended December 31, 2015					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$69,616	\$3,647	\$3,920	\$47,290	\$5,674	\$9,085
LHFI charged-off	(22,469)	(1,294)	(1,924)	(15,848)	(1,630)	(1,773)
Recoveries	12,097	349	2,892	6,361	1,105	1,390
Net (charge-offs) recoveries	(10,372)	(945)	968	(9,487)	(525)	(383)
Provision for loan losses, LHFI	8,375	2,767	(2,122)	5,380	81	2,269
Balance at end of period	\$67,619	\$5,469	\$2,766	\$43,183	\$5,230	\$10,971

	Year Ended December 31, 2014					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$66,448	\$1,506	\$6,282	\$42,592	\$5,088	\$10,980
LHFI charged-off	(13,226)	(623)	(1,059)	(10,068)	(1,255)	(221)
Recoveries	15,183	220	4,423	8,292	796	1,452
Net (charge-offs) recoveries	1,957	(403)	3,364	(1,776)	(459)	1,231
Provision for loan losses, LHFI	1,211	2,544	(5,726)	6,474	1,045	(3,126)
Balance at end of period	\$69,616	\$3,647	\$3,920	\$47,290	\$5,674	\$9,085

Charge-offs exceeded recoveries for 2016 resulting in a net charge-off of \$7.3 million, or 0.10% of average loans (LHFS and LHFI), compared to a net charge-off of \$10.4 million, or 0.15% of average loans (LHFS and LHFI), in 2015, and a net recovery of \$2.0 million, or -0.03% of average loans (LHFS and LHFI), in 2014. The decrease in total net charge-offs during 2016 was principally due to declines in charge-offs in the Mississippi, Florida, Tennessee and Alabama market regions partially offset by an increase in charge-offs in the Texas market region, primarily due to three large substandard credits that were charged off during 2016. The increase in total net charge-offs during 2015 can be primarily attributed to an increase in charge-offs in the Mississippi market region, principally due to two large substandard credits that were charged off during 2015 which totaled \$8.0 million, a decrease in recoveries of loans previously charged down, principally due to a \$1.9 million decline in recoveries in the Mississippi market region and a \$1.5 million decline in recoveries in the Florida market region, and an increase in charge-offs in the Texas market region as a result of a large substandard credit that was charged off during the third quarter of 2015.

The provision for loan losses, LHFI represents the change in the estimated loan losses determined utilizing Trustmark's allowance for loan loss methodology net of charge-offs and recoveries of LHFI charged against net income. The provision for loan losses, LHFI, for 2016 totaled 0.14% of average loans (LHFS and LHFI), compared to 0.12% of average loans (LHFS and LHFI) in 2015 and 0.02% of average loans (LHFS and LHFI) in 2014. The increase in the provision for loan losses, LHFI when 2016 is compared to 2015 primarily reflects the increase in the amount of required reserves for LHFI, partially offset by a decrease in net charge-offs and the additional provision expense recorded during 2015 as a result of revisions to the allowance for loan loss methodology. The provision for loan losses, LHFI for the Texas market region increased \$3.4 million when 2016 is compared to 2015, principally resulting from increases in charge-offs as well as the required reserves for LHFI. The provision for loan losses, LHFI for the Mississippi market region decreased \$1.8 million when 2016 is compared to 2015, principally due to the decrease in charge-offs and additional provision expense recorded during 2015 as a result of revisions to the allowance for loan loss methodology.

During 2015, Trustmark made revisions to both the quantitative and qualitative portions of the allowance for loan loss methodology for commercial and consumer LHFI. In total, these revisions resulted in an additional provision expense of \$9.5 million during 2015. For a complete description of the revisions made to Trustmark's allowance for loan loss methodology during 2015, please see Note 5 – LHFI and Allowance for Loan Losses, LHFI included in Part II. Item 8. –

Financial Statements and Supplementary Data – of this report.

The increase in the provision for loan losses, LHFI during 2015 resulted primarily from changes to Trustmark's allowance for loan loss methodology, an increase in charge-offs of LHFI, principally in the Mississippi and Texas market regions, a decline in recoveries on LHFI, principally in the Mississippi and Florida market regions, and a decline in the amount of reserves released, principally in the Texas and Florida market regions, compared to 2014. The provision for loan losses, LHFI for the Texas market region increased \$5.4 million during 2015 primarily due to a decline in the amount of reserves released compared to 2014, a large substandard credit that was charged off during 2015, increases in reserves required based on balance and risk rate changes of LHFI and the additional provision expense recorded during 2015 due to the changes in the allowance for loan loss methodology. The \$3.6 million increase in provision for the Florida market region was primarily due to the additional provision expense recorded during 2015 for changes in the allowance for loan loss methodology and a decline in recoveries, principally resulting from pay-downs received during 2014 of loans previously charged down partially offset by pay-downs received during 2015. The provision for loan losses, LHFI for the Mississippi market region declined \$1.1 million primarily due to a decline in the amount of reserves required based on the qualitative reserve factor calculation and an increase in charge-offs principally due to the charge off of two large substandard credits during 2015,

Edgar Filing: TRUSTMARK CORP - Form 10-K

partially offset by an increase in the amount of reserves required based on the quantitative reserve factor calculation, a decrease in the amount of recoveries received during 2015 compared to 2014 and the additional provision expense recorded during 2015 as a result of changes in the allowance for loan loss methodology.

Nonperforming Assets, Excluding Acquired Loans and Covered Other Real Estate

The table below provides the components of the nonperforming assets, excluding acquired loans and covered other real estate, by geographic market region for each year in the five-year period ended December 31, 2016 (\$ in thousands):

	December 31,				
	2016	2015	2014	2013	2012
Nonaccrual LHFI					
Alabama	\$665	\$1,776	\$852	\$14	\$—
Florida	3,644	5,180	11,091	12,278	19,314
Mississippi	37,771	40,754	57,129	42,307	38,960
Tennessee	6,213	5,106	5,819	4,390	8,401
Texas	941	2,496	4,452	6,249	15,688
Total nonaccrual LHFI	49,234	55,312	79,343	65,238	82,363
Other real estate					
Alabama	15,989	21,578	21,196	25,912	—
Florida	22,582	29,579	35,324	34,480	18,569
Mississippi	15,646	14,312	17,397	22,766	27,771
Tennessee	6,183	9,974	10,292	12,892	17,589
Texas	1,651	1,734	8,300	10,489	14,260
Total other real estate, excluding covered					
other real estate	62,051	77,177	92,509	106,539	78,189
Total nonperforming assets	\$111,285	\$132,489	\$171,852	\$171,777	\$160,552
Nonperforming assets/total loans (LHFS and LHFI)					
and ORE	1.38	% 1.81	% 2.57	% 2.84	% 2.71
Loans Past Due 90 days or more					
LHFI	\$1,832	\$2,300	\$2,764	\$3,298	\$6,378
LHFS - Guaranteed GNMA services loans (1)	\$28,345	\$21,812	\$25,943	\$21,540	\$43,073

(1) No obligation to repurchase

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

Nonaccrual LHFI

At December 31, 2016, nonaccrual LHFI totaled \$49.2 million, or 0.61% of total LHFS and LHFI, reflecting a decrease of \$6.1 million, or 0.08% of total LHFS and LHFI, relative to December 31, 2015. The decrease in nonaccrual LHFI was principally due to substandard credits that were paid off or foreclosed in the Mississippi market

region, returned to accrual status in the Florida market region, and charged off in the Mississippi and Texas market regions partially offset by LHFIs migrating to nonaccrual status in the Mississippi, Florida and Tennessee market regions during 2016. LHFIs migrating to nonaccrual status in Trustmark's Mississippi market region totaled approximately \$21.1 million during 2016. Of this total \$14.9 million, or 70.8%, represented five substandard credits, three energy-related loans and two healthcare providers. As of December 31, 2016, nonaccrual energy-related LHFIs totaled \$11.4 million and represented 4.2% of Trustmark's total energy-related portfolio. Predominately all of the nonaccrual energy-related LHFIs as of December 31, 2016 were in the oil field services category. For additional information regarding nonaccrual LHFIs, see the section captioned "Nonaccrual/Impaired LHFIs" in Note 5 – LHFIs and Allowance for Loan Losses, LHFIs included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Edgar Filing: TRUSTMARK CORP - Form 10-K

The following table illustrates nonaccrual LHFIs by loan type for each year in the five-year period ended December 31, 2016 (\$ in thousands):

	December 31,				
	2016	2015	2014	2013	2012
Loans secured by real estate:					
Construction, land development and other land	\$3,323	\$6,123	\$13,867	\$13,327	\$27,105
Secured by 1-4 family residential properties	20,329	23,079	25,621	21,603	27,114
Secured by nonfarm, nonresidential properties	8,482	17,800	25,717	21,809	18,289
Other real estate secured	402	145	1,318	1,327	3,956
Commercial and industrial loans	15,824	7,622	12,104	6,286	4,741
Consumer loans	300	31	88	151	360
State and other political subdivision loans	—	—	—	—	—
Other loans	574	512	628	735	798
Total nonaccrual LHFIs	\$49,234	\$55,312	\$79,343	\$65,238	\$82,363

Other Real Estate, Excluding Covered Other Real Estate

Other real estate, excluding covered other real estate, at December 31, 2016 decreased \$15.1 million, or 19.6%, when compared with December 31, 2015. The decrease in other real estate, excluding covered other real estate, during 2016 was primarily due to properties sold as well as write-downs of properties in Trustmark's Florida, Mississippi, Alabama and Tennessee market regions partially offset by properties foreclosed in these four market regions.

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 December 31, 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.

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

	Year Ended December 31, 2016					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$77,177	\$21,578	\$29,579	\$14,312	\$9,974	\$1,734
Additions	24,348	2,363	10,523	9,514	1,849	99
Disposals	(35,075)	(6,934)	(16,815)	(6,841)	(4,303)	(182)
Write-downs	(4,399)	(1,018)	(705)	(1,339)	(1,337)	—
Balance at end of period	\$62,051	\$15,989	\$22,582	\$15,646	\$6,183	\$1,651

	Year Ended December 31, 2015					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$92,509	\$21,196	\$35,324	\$17,397	\$10,292	\$8,300
Additions	33,396	8,791	8,330	6,004	1,374	8,897
Disposals	(45,826)	(8,506)	(12,689)	(7,504)	(1,701)	(15,426)
Write-downs	(2,902)	(745)	(1,386)	(743)	9	(37)
Adjustments	—	842	—	(842)	—	—
Balance at end of period	\$77,177	\$21,578	\$29,579	\$14,312	\$9,974	\$1,734

Edgar Filing: TRUSTMARK CORP - Form 10-K

	Year Ended December 31, 2014					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	\$ 106,539	\$ 25,912	\$ 34,480	\$ 22,766	\$ 12,892	\$ 10,489
Additions	37,428	8,489	16,353	12,146	440	—
Disposals	(43,802)	(10,167)	(14,684)	(15,684)	(1,078)	(2,189)
Write-downs	(7,656)	(3,122)	(825)	(1,747)	(1,962)	—
Adjustments	—	84	—	(84)	—	—
Balance at end of period	\$ 92,509	\$ 21,196	\$ 35,324	\$ 17,397	\$ 10,292	\$ 8,300

Write-downs of other real estate, excluding covered other real estate, increased \$1.5 million during 2016, compared to a decrease of \$4.8 million during 2015 and an increase of \$1.3 million during 2014. The increase in write-downs on other real estate, excluding

covered other real estate, during 2016 was primarily due to \$2.2 million of reserves for other real estate write-downs used or released during 2015 in the Alabama, Tennessee and Mississippi market regions. The decrease in write-downs on other real estate, excluding covered other real estate, during 2015 was the result of the \$3.7 million decrease in the provision for other real estate write-downs due to provision recapture in Trustmark's Alabama, Tennessee and Mississippi market regions as reserves for other real estate write-downs previously recorded were used or released during the year, partially offset by provision expense in the Florida market region and decreases in write-downs on other real estate that was revalued during the year, principally in the Tennessee, Florida and Mississippi market regions.

Other real estate in Trustmark's Florida market region included \$8.4 million of BancTrust properties foreclosed during 2016, \$360 thousand of write-downs of BancTrust other real estate and the sale of \$12.6 million of BancTrust other real estate in Florida during 2016. Excluding other real estate resulting from the BancTrust merger, other real estate, excluding covered other real estate, decreased \$4.0 million during 2016. Other real estate, excluding covered other real estate, in Trustmark's Florida market region included \$5.9 million of BancTrust properties foreclosed during 2015, \$665 thousand of write-downs of BancTrust other real estate and the sale of \$8.3 million of BancTrust other real estate during 2015. Excluding other real estate resulting from the BancTrust merger, other real estate, excluding covered other real estate, decreased \$11.9 million during 2015.

The following table illustrates other real estate, excluding covered other real estate, by type of property for each year in the five-year period ended December 31, 2016 (\$ in thousands):

	December 31,				
	2016	2015	2014	2013	2012
Construction, land development and other land properties	\$36,871	\$47,550	\$61,015	\$65,273	\$46,957
1-4 family residential properties	7,926	10,732	10,150	14,696	8,134
Nonfarm, nonresidential properties	16,817	16,717	19,696	26,433	22,760
Other real estate properties	437	2,178	1,648	137	338
Total other real estate, excluding covered other real estate	\$62,051	\$77,177	\$92,509	\$106,539	\$78,189

For additional information regarding other real estate, including covered other real estate, see Note 10 – Other Real Estate and Covered Other Real Estate included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Acquired Loans

The table below provides the carrying value of the acquired loan portfolio by loan type for each year of the five-year period ended December 31, 2016 (\$ in thousands):

	December 31,				
	2016	2015	2014	2013	2012
Noncovered loans:					
Loans secured by real estate:					
Construction, land development and other land	\$20,850	\$41,623	\$58,309	\$98,928	\$10,056
Secured by 1-4 family residential properties	65,926	86,950	116,920	157,914	19,404
Secured by nonfarm, nonresidential properties	103,820	135,626	202,323	287,136	45,649
Other real estate secured	19,010	23,860	27,813	33,948	669
Commercial and industrial loans	36,896	55,075	88,256	149,495	3,035
Consumer loans	3,365	5,641	9,772	18,428	2,610
Other loans	18,766	23,936	22,390	24,141	100
Noncovered acquired loans	268,633	372,711	525,783	769,990	81,523
Less allowance for loan losses, acquired loans	11,312	11,259	10,541	7,249	1,885
Net noncovered acquired loans	\$257,321	\$361,452	\$515,242	\$762,741	\$79,638
Covered loans: (1)					
Loans secured by real estate:					
Construction, land development and other land	\$—	\$1,021	\$1,197	\$2,363	\$3,924
Secured by 1-4 family residential properties	3,614	10,058	13,180	16,416	23,990
Secured by nonfarm, nonresidential properties	—	4,638	7,672	10,945	18,407
Other real estate secured	—	1,286	1,096	2,644	3,567
Commercial and industrial loans	—	624	277	394	747
Consumer loans	—	—	—	119	177
Other loans	—	73	204	1,335	1,229
Covered acquired loans	3,614	17,700	23,626	34,216	52,041
Less allowance for loan losses, acquired loans	85	733	1,518	2,387	4,190
Net covered acquired loans	\$3,529	\$16,967	\$22,108	\$31,829	\$47,851

- (1) Effective July 1, 2016, all acquired covered loans excluding the covered acquired loans secured by 1-4 family residential properties were reclassified to noncovered acquired loans.

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

During 2016, noncovered and covered acquired loans declined \$104.1 million, or 27.9%, and \$14.1 million, or 79.6%, respectively, compared to balances at December 31, 2015. The decrease in noncovered acquired loans during 2016 was primarily the result of pay-downs and pay-offs of these acquired loans partially offset by the reclassification of covered acquired loans to noncovered acquired loans as of July 1, 2016 due to the expiration of the related loss share agreement with the FDIC. Total acquired loans declined \$118.2 million, or 30.3%, during 2016. Based on the most recent re-estimation of expected cash flows, Trustmark anticipates that acquired loan balances, excluding any settlement of debt, will decline approximately \$20.0 million to \$25.0 million during the first quarter of 2017. Trustmark also expects the yield on the acquired loans, excluding any recoveries, to be approximately 5.5% to 6.5% for the first quarter of 2017. As the balances in the acquired loan portfolio continue to run-off, Trustmark

expects that the income benefit provided by this portfolio will also decline. For additional information regarding acquired loans, including changes in the net carrying value, see Note 6 – Acquired Loans included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Deposits

Trustmark's deposits are its primary source of funding and consist of core deposits from the communities Trustmark serves. Deposits include interest-bearing and noninterest-bearing demand accounts, savings, money market, certificates of deposit and individual retirement accounts. Total deposits were \$10.056 billion at December 31, 2016 compared to \$9.588 billion at December 31, 2015, an increase of \$467.8 million, or 4.9%. During 2016, noninterest-bearing deposits decreased \$25.5 million, or 0.8%, primarily due to declines in public demand deposit accounts, which were mostly offset by growth in commercial and consumer demand deposit

accounts, while interest-bearing deposits increased \$493.2 million, or 7.5%, primarily due to growth in interest-bearing demand deposit accounts, predominantly in public interest checking, and savings accounts partially offset by declines in certificates of deposits. Public interest checking accounts increased \$421.5 million, or 41.1%, during 2016, principally during the fourth quarter of 2016. The increase in public interest checking accounts was primarily due to an increase in non-core public deposits as a result of the FRB's increase in the target range for the federal funds rate during December 2016.

Short-term Borrowings

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposit growth. Short-term borrowings consist primarily of federal funds purchased, securities sold under repurchase agreements, short-term FHLB advances and GNMA optional repurchase loans. Short-term borrowings totaled \$1.310 billion at December 31, 2016, an increase of \$455.9 million, or 53.4%, when compared with \$853.7 million at December 31, 2015, primarily due to a \$500.0 million FHLB advance with the FHLB of Dallas that was reclassified from long-term to short-term in December 2016. Federal funds purchased and securities sold under repurchase agreements totaled \$539.8 million at December 31, 2016 compared to \$441.0 million at December 31, 2015, an increase of \$98.8 million, or 22.4%. Of these amounts \$140.5 million and \$144.0 million, respectively, represented customer related transactions, such as commercial sweep repurchase balances. Excluding customer related transactions, federal funds purchased totaled \$399.4 million at December 31, 2016, an increase of \$102.4 million when compared with \$297.0 million at December 31, 2015, as Trustmark increased its utilization of this attractively priced funding source, along with FHLB advances, to fund the difference between loan and deposit growth. Other short-term borrowings increased \$357.2 million, or 86.6%, during 2016 primarily due to an increase of \$350.0 million in outstanding short-term FHLB advances. The increase in outstanding short-term FHLB advances during 2016 was primarily due to the \$500.0 million FHLB advance with the FHLB of Dallas that was reclassified from long-term to short-term in December 2016 partially offset by a \$150.0 million decline in other short-term advances with the FHLB of Dallas. For additional information regarding Trustmark's short-term FHLB advances, please see the section captioned "Liquidity."

The table below presents information concerning qualifying components of Trustmark's short-term borrowings for each of the last three years (\$ in thousands):

	2016	2015	2014
Federal funds purchased and securities sold under repurchase agreements:			
Amount outstanding at end of period	\$539,817	\$441,042	\$443,543
Weighted average interest rate at end of period	0.52 %	0.25 %	0.10 %
Maximum amount outstanding at any month end during each period	\$606,336	\$673,360	\$692,242
Average amount outstanding during each period	495,197	503,077	435,324
Weighted average interest rate during each period	0.35 %	0.16 %	0.13 %
Short-term borrowings:			
Amount outstanding at end of period	\$769,778	\$412,617	\$425,077
Weighted average interest rate at end of period	0.72 %	0.58 %	0.49 %
Maximum amount outstanding at any month end during each period	\$769,778	\$858,827	\$425,077
Average amount outstanding during each period	370,008	415,081	173,759
Weighted average interest rate during each period	1.00 %	0.69 %	0.87 %

Long-term FHLB Advances

Long-term FHLB advances totaled \$251.0 million at December 31, 2016, a decrease of \$250.1 million, or 49.9%, when compared with \$501.2 million at December 31, 2015. During the second quarter of 2016, Trustmark obtained a \$250.0 million long-term FHLB advance from the FHLB of Dallas. Similar to the long-term advance obtained in December 2015, the advance has a variable rate and a two-year maturity. As noted above, during the fourth quarter of 2016, the \$500.0 million long-term FHLB advance obtained in December 2015 was reclassified to short-term. Trustmark chose to utilize FHLB advances with the FHLB of Dallas as a funding source for loan growth due to the advantageous rates available in comparison to other sources of funding. For additional information regarding Trustmark's long-term FHLB advances, please see the section captioned "Liquidity."

Benefit Plans

Defined Benefit Plans

As disclosed in Note 15 – Defined Benefit and Other Postretirement Benefits included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report, Trustmark maintains a noncontributory tax-qualified defined benefit pension 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 covered through acquired plans that were merged into the Plan (collectively, the "Continuing Associates"), the Board of Directors 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 30, 2016, immediately prior to the termination of the Plan.

In order to terminate the Plan, in accordance with IRS and Pension Benefit Guaranty Corporation (PBGC) 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 of approximately \$17.5 million will be recognized when paid by Trustmark during the second quarter of 2017. Trustmark does not expect this estimated amount to change materially between the date of this report and the final distribution of plan assets although if a material number of participants in the Plan elect to receive annuity payments rather than a lump sum cash payment pursuant to the termination of the Plan, Trustmark's costs in effecting the termination of the Plan would change, and would likely increase, perhaps materially. 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 decreased from 6.0% to 2.5%. Accordingly, Trustmark's increased periodic benefit costs for the Plan during the second half of 2016 was \$1.3 million. 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. After the distribution of plan assets during the second quarter of 2017, Trustmark estimates that the annual pension expense will be reduced by approximately \$3.0 million to \$4.0 million.

The Board of Directors 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.

As a result of the merger with BancTrust on February 15, 2013, Trustmark became the sponsor of the Retirement Plan for Employees of BancTrust Financial Group (BancTrust Pension Plan), a tax-qualified defined benefit pension plan, which was frozen prior to the merger date. On January 28, 2014, Trustmark's Board of Directors authorized the termination of the BancTrust Pension Plan effective as of April 15, 2014. On October 1, 2015, Trustmark received a favorable determination letter from the IRS with respect to the BancTrust Pension Plan's termination. In addition, as required by law, a termination notice was filed with the PBGC, and it is not anticipated that the PBGC will raise any issues with respect to the BancTrust Pension Plan's termination. During 2014, the assets of the BancTrust Pension Plan were held in trust and distributed in conjunction with the plan termination. All assets of the BancTrust Pension Plan were distributed as of December 31, 2014. Benefits that were not paid to participants were annuitized under annuity contracts. As a result of the termination of the BancTrust Pension Plan, Trustmark recognized a pre-tax gain of \$1.2 million during 2014.

At December 31, 2016, the fair value of the Plan's assets totaled \$54.7 million and was exceeded by the projected benefit obligation of \$75.9 million by \$21.2 million. Net periodic benefit cost equaled \$7.5 million in 2016, compared with \$4.9 million in 2015 and 1.5 million in 2014.

The fair value of plan assets is determined utilizing current market quotes, while the benefit obligation and periodic benefit costs are determined utilizing actuarial methodology with certain weighted-average assumptions. For 2016, 2015 and 2014, the process used to select the discount rate assumption under FASB ASC Topic 715 takes into account the benefit cash flow and the segmented yields on high-quality corporate bonds that would be available to provide for the payment of the benefit cash flow. Assumptions, which have been chosen to represent the estimate of a particular event as required by GAAP, have been reviewed and approved by Management based on recommendations from its actuaries. For additional information regarding the assumptions used by Management, please refer to the section captioned "Critical Accounting Policies – Defined Benefit Plans."

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 years ending December 31, 2016 and 2015, Trustmark's minimum required contribution to the Plan was zero. Since the Plan has terminated, there will be no additional contributions required in the future other than amounts necessary to facilitate the Plan termination. For the plan year ending December 31, 2017, Trustmark's minimum required contribution to the Spin-Off Plan is expected to be zero; however, Management and the Board of Directors of Trustmark will monitor the Spin-Off Plan throughout 2017 to determine any additional funding requirements by the plan's measurement date.

Supplemental Retirement Plans

As disclosed in Note 15 – Defined Benefit and Other Postretirement Benefits included in Part II. Item 8. – Financial Statements and Supplementary Data – of this report, Trustmark maintains a nonqualified supplemental retirement plan covering key executive officers and senior officers as well as directors who have elected to defer fees. The plan provides for retirement and/or death benefits based on a participant's covered salary or deferred fees. Although plan benefits may be paid from Trustmark's general assets, Trustmark has purchased life insurance contracts on the participants covered under the plan, which may be used to fund future benefit payments under the plan. The measurement date for the plan is December 31. As a result of mergers prior to 2014, Trustmark became the administrator of small nonqualified supplemental retirement plans, for which the plan benefits were frozen prior to the merger date.

At December 31, 2016, the accrued benefit obligation for the supplemental retirement plans equaled \$58.5 million, while the net periodic benefit cost equaled \$3.6 million in 2016, \$3.8 million in 2015 and \$3.4 million in 2014. The net periodic benefit cost and projected benefit obligation are determined using actuarial assumptions as of the plans' measurement date, which is December 31. The process used to select the discount rate assumption under FASB ASC Topic 715 takes into account the benefit cash flow and the segmented yields on high-quality corporate bonds that would be available to provide for the payment of the benefit cash flow. At December 31, 2016, unrecognized actuarial losses and unrecognized prior service costs continue to be amortized over future service periods.

Legal Environment

Information required in this section is set forth under the heading "Legal Proceedings" of Note 17 – Commitments and Contingencies in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

Off-Balance Sheet Arrangements

Information required in this section is set forth under the heading “Lending Related” of Note 17 – Commitments and Contingencies in Part II. Item 8. – Financial Statements and Supplementary Data – of this report.

70

Contractual Obligations

Trustmark is obligated to make payments under specific long-term and certain other binding contractual arrangements. The following table provides a schedule of the amount of the payments due under those obligations as of December 31, 2016 (\$ in thousands):

	Less than One Year	One to Three Years	Three to Five Years	After Five Years	Total
Time deposits	\$1,225,303	\$345,452	\$48,374	\$1,964	\$1,621,093
Securities sold under repurchase agreements	127,007	—	—	—	127,007
FHLB advances	700,008	250,039	821	189	951,057
Junior subordinated debt securities	—	—	—	61,856	61,856
Operating lease obligations	9,561	14,112	9,766	24,611	58,050
Total	\$2,061,879	\$609,603	\$58,961	\$88,620	\$2,819,063

Capital Resources

At December 31, 2016, Trustmark's total shareholders' equity was \$1.520 billion, an increase of \$47.2 million, or 3.2%, from its level at December 31, 2015. During 2016, shareholders' equity increased primarily as a result of net income of \$108.4 million, which was partially offset by common stock dividends of \$62.7 million. Trustmark utilizes a capital model in order to provide Management with a monthly tool for analyzing changes in its strategic capital ratios. This allows Management to hold sufficient capital to provide for growth opportunities and protect the balance sheet against sudden adverse market conditions, while maintaining an attractive return on equity to shareholders.

Regulatory Capital

Trustmark and TNB are subject to minimum risk-based capital and leverage capital requirements, as described in the section captioned "Capital Adequacy" included in Part I. Item 1. – Business – of this report, 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%. Accumulated other comprehensive loss, net of tax is not included in computing regulatory capital. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB and limit Trustmark's and TNB's ability to pay dividends. As of December 31, 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 December 31, 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, 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 December 31, 2016, which Management believes have affected Trustmark's or TNB's present classification.

During 2006, Trustmark enhanced its capital structure with the issuance of trust preferred securities and Subordinated Notes (the Notes). For regulatory capital purposes, the trust preferred securities currently qualify as Tier 1 capital. Trustmark intends to continue to utilize \$60.0 million in trust preferred securities issued by the Trust as Tier 1

capital up to the regulatory limit, as permitted by the grandfather provision in the Dodd-Frank Act and the Basel III Final Rule.

Refer to the section captioned “Regulatory Capital” included in Note 18 – Shareholders’ Equity in Part II. Item 8. – Financial Statements and Supplementary Data – of this report for an illustration of Trustmark’s and TNB’s actual regulatory capital amounts and ratios under regulatory capital standards in effect at December 31, 2016 and 2015.

Dividends on Common Stock

Dividends per common share for each of the years ended December 31, 2016, 2015 and 2014 were \$0.92. Trustmark’s dividend payout ratio for 2016, 2015 and 2014 was 57.5%, 53.5%, and 50.3%, respectively. Approval by TNB’s regulators is required if the total of all dividends declared in any calendar year exceeds the total of its net income for that year combined with its retained net income of the preceding two years. TNB will have available in 2017 approximately \$98.3 million plus its net income for that year to pay as dividends to Trustmark. The actual amount of any dividends declared in 2016 by Trustmark will be determined by Trustmark’s Board of Directors.

Liquidity

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

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

Deposit accounts represent Trustmark's largest funding source. Average deposits totaled to \$9.669 billion for 2016 and represented approximately 74.7% of average liabilities and shareholders' equity, compared to average deposits of \$9.628 billion, which represented 78.5% of average liabilities and shareholders' equity for 2015.

Trustmark utilizes a limited amount of brokered deposits to supplement other wholesale funding sources. At December 31, 2016, brokered sweep Money Market Deposit Account (MMDA) deposits totaled \$34.2 million compared to \$42.3 million at December 31, 2015.

At December 31, 2016, Trustmark had \$399.4 million in upstream federal funds purchased, compared to \$297.0 million at December 31, 2015. Trustmark maintains adequate federal funds lines to provide sufficient short-term liquidity. Trustmark increased its utilization of this attractively priced funding source, along with FHLB advances, to fund the difference between loan and deposit growth.

Trustmark maintains a relationship with the FHLB of Dallas, which provided \$700.0 million of outstanding short-term advances and \$250.0 million of outstanding long-term advances at December 31, 2016 compared to \$350.0 million of outstanding short-term advances and \$500.0 million of outstanding long-term advances at December 31, 2015. The outstanding short-term FHLB advances at December 31, 2016 included a \$500.0 million FHLB advance that was reclassified from long-term to short-term during December 2016. Trustmark chose to utilize FHLB advances with the FHLB of Dallas as a funding source for loan growth due to the advantageous rates available in comparison to other sources of funding.

Under the existing borrowing agreement, Trustmark had sufficient qualifying collateral to increase FHLB advances with the FHLB of Dallas by \$1.511 billion at December 31, 2016. In addition, at December 31, 2016, Trustmark had \$1.1 million in FHLB advances outstanding with the FHLB of Atlanta, which were acquired in the BancTrust merger, compared to \$1.2 million at December 31, 2015. Trustmark has non-member status and thus no additional borrowing capacity with the FHLB of Atlanta.

Additionally, Trustmark has the ability to enter into wholesale funding repurchase agreements as a source of borrowing by utilizing its unencumbered investment securities as collateral. At December 31, 2016, Trustmark had approximately \$1.373 billion available in repurchase agreement capacity compared to \$1.194 billion at December 31, 2015. The increase in repurchase agreement capacity at December 31, 2016, was primarily due to an increase in the unencumbered investment portfolio balance resulting in part from a lower public deposit pledge requirement.

Another borrowing source is the Discount Window. At December 31, 2016, Trustmark had approximately \$998.1 million available in collateral capacity at the Discount Window from pledges of commercial and industrial LHFI, compared with \$883.7 million at December 31, 2015. This increase was due to the increase in the commercial and industrial LHFI portfolio during 2016.

On December 15, 2016, TNB repaid the \$50.0 million in aggregate principal amount of the Notes. The Notes, which had a maturity date of December 15, 2016, were unsecured and subordinate and junior in right of payment to TNB's obligations to its depositors, its obligations under bankers' acceptances and letters of credit, its obligations to any Federal Reserve Bank or the FDIC and its obligations to its other creditors, and to any rights acquired by the FDIC as a result of loans made by the FDIC to TNB.

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

The Board of Directors of Trustmark currently has the authority to issue up to 20.0 million preferred shares with no par value. The ability to issue preferred shares in the future will provide Trustmark with additional financial and management flexibility for general corporate and acquisition purposes. At December 31, 2016, Trustmark had no shares of preferred stock issued and outstanding.

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

Asset/Liability Management

Overview

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

Management continually develops and applies cost-effective strategies to manage these risks. Management's Asset/Liability Committee sets the day-to-day operating guidelines, approves strategies affecting net interest income and coordinates activities within policy limits established by the Board of Directors of Trustmark. A key objective of the asset/liability management program is to quantify, monitor and manage interest rate risk and to assist Management in maintaining stability in the net interest margin under varying interest rate environments.

Derivatives

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

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

No ineffectiveness related to the interest rate swap designated as a cash flow hedge was recognized in the consolidated statements of income during the years ended December 31, 2016, 2015 and 2014. The accumulated net after-tax loss related to the effective cash flow hedge included in AOCL totaled \$17 thousand and \$160 thousand at December 31,

2016 and 2015, respectively. Amounts reported in AOCL related to this derivative are reclassified to other interest expense as interest payments are made on Trustmark's variable rate junior subordinated debentures. During the next twelve months, Trustmark estimates that \$298 thousand will be reclassified as an increase to other interest expense.

As part of Trustmark's risk management strategy in the mortgage banking business, various derivative instruments such as interest rate lock commitments and forward sales contracts are utilized. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified period of time. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. The gross notional amount of Trustmark's off-balance sheet obligations under these derivative instruments totaled \$292.9 million at December 31, 2016, with a positive valuation adjustment of \$3.8 million, compared to \$298.6 million, with a positive valuation adjustment of \$1.4 million at December 31, 2015.

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in fair value of the MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting under GAAP. The total notional amount of these derivative instruments were \$262.0 million at December 31, 2016 compared to \$264.5 million at December 31, 2015. These exchange-traded derivative instruments are accounted for at fair value with changes in the fair value recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of the MSR. The MSR fair value represents the present value of future cash flows, which among other things includes decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the change in value of hedge instruments to the change in the fair value of the MSR asset attributable to changes in interest rates and other market driven changes in valuation inputs and assumptions. The impact of this strategy resulted in a net negative ineffectiveness of \$2.9 million for the year ended December 31, 2016, compared to a net positive ineffectiveness of \$1.9 million and \$3.1 million for the years ended December 31, 2015 and 2014, respectively. The net negative ineffectiveness was primarily due to the tightening in the mortgage spread during 2016 compared to 2015. The net positive ineffectiveness was primarily due to the mortgage spread widening coupled with a decline in mortgage rates during 2015 compared to 2014.

Trustmark offers certain interest rate derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk under loans they have entered into with TNB. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivatives transactions executed as part of this program are not designated as qualifying hedging relationships under GAAP and are, therefore, carried on Trustmark's financial statements at fair value with the change in fair value recorded in noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset. As of December 31, 2016, Trustmark had interest rate swaps with an aggregate notional amount of \$340.2 million related to this program, compared to \$359.3 million as of December 31, 2015.

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

As of December 31, 2016 and 2015, the termination value of interest rate swaps in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$1.2 million and \$2.6 million, respectively. As of December 31, 2016, Trustmark had posted collateral of \$1.8 million against its obligations because of negotiated thresholds and minimum transfer amounts under these agreements. If Trustmark had breached any of these triggering provisions at December 31, 2016, it could have been required to settle its obligations under the agreements at the termination value (which is expected to approximate fair market value).

Credit risk participation agreements arise when Trustmark contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. At December 31, 2016 and 2015, Trustmark had entered into two risk participation agreements as a beneficiary with an aggregate notional amount of \$14.2 million and \$14.8 million, respectively. As of December 31, 2016, Trustmark had entered into five risk participation agreement as a guarantor with an aggregate notional amount of \$28.0 million compared to one risk participation agreement as a guarantor with an aggregate notional amount of \$5.9 million at December 31, 2015. The aggregate fair values of these risk participation agreements were immaterial at December 31, 2016 and 2015.

Trustmark's participation in the derivatives markets is subject to increased federal regulation of these markets. Trustmark believes that it may continue to use financial derivatives to manage interest rate risk and also to offer derivatives products to certain qualified commercial lending clients in compliance with the Volcker Rule. However, the increased federal regulation of the derivatives markets has increased the cost to Trustmark of

administering its derivatives programs. Some of these costs (particularly compliance costs related to the Volcker Rule and other federal regulations) are expected to recur in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market/Interest Rate Risk Management

The primary purpose in managing interest rate risk is to invest capital effectively and preserve the value created by the core banking business. This is accomplished through the development and implementation of lending, funding, pricing and hedging strategies designed to maximize net interest income performance under varying interest rate environments subject to specific liquidity and interest rate risk guidelines.

74

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

Based on the results of the simulation models using static balances, the table below summarizes the effect various one-year interest rate shift scenarios would have on net interest income compared to a base case, flat scenario at December 31, 2016 and 2015. At December 31, 2016 and 2015, the impact of a 200 basis point drop scenario was not calculated due to the low interest rate environment.

Change in Interest Rates	Estimated % Change in Net Interest Income	
	2016	2015
+200 basis points	-0.1 %	-0.5 %
+100 basis points	0.0 %	-0.3 %
-100 basis points	-6.3 %	-6.7 %

As shown in the table above, the interest rate shocks for 2016 illustrate little change in net interest income in rising rate scenarios while displaying modest exposure to a falling rate environment. The exposure to falling rates is primarily due to a downward repricing of various earning assets with minimal contribution from liabilities given the already low cost of deposits in the base scenario. Management cannot provide any assurance about the actual effect of changes in interest rates on net interest income. The estimates provided do not include the effects of possible strategic changes in the balances of various assets and liabilities throughout 2017 or additional actions Trustmark could undertake in response to changes in interest rates. Management will continue to prudently manage the balance sheet in an effort to control interest rate risk and maintain profitability over the long term.

Another component of interest rate risk management is measuring the economic value-at-risk for a given change in market interest rates. The economic value-at-risk may indicate risks associated with longer-term balance sheet items that may not affect net interest income at risk over shorter time periods. Trustmark uses computer-modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The economic value of equity (EVE), also known as net portfolio value, is defined as the difference between the present value of asset cash flows and the present value of liability cash flows. The resulting change in EVE in different market rate environments, from the base case scenario, is the amount of EVE at risk from those rate environments. The following table summarizes the effect that various interest rate shifts would have on net portfolio value at December 31, 2016 and 2015. At December 31, 2016 and 2015, the impact of a 200 basis point drop scenario was not calculated due to the historically low interest rate environment.

	Estimated % Change in Net Portfolio Value	
Change in Interest Rates	2016	2015
+200 basis points	7.0 %	0.6 %
+100 basis points	4.0 %	0.7 %
-100 basis points	-11.3 %	-7.2 %

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

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

At December 31, 2016, the MSR fair value was approximately \$80.2 million, compared to \$74.0 million at December 31, 2015. The impact on the MSR fair value of a 10% adverse change in prepayment speeds or a 100 basis point increase in discount rates at December 31, 2016, would be a decline in fair value of approximately \$2.5 million and \$2.9 million, respectively, compared to a decline in fair value of approximately \$2.4 million and \$2.6 million, respectively, at December 31, 2015. Changes of equal magnitude in the opposite direction would produce similar increases in fair value in the respective amounts.

ITEM 8. FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA
Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Trustmark Corporation

Jackson, Mississippi

We have audited the accompanying consolidated balance sheet of Trustmark Corporation and subsidiaries (the Corporation) as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year ended December 31, 2016. We also have audited the Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in 2013 in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trustmark Corporation and subsidiaries as of December 31, 2016, and the results of their

operations and their cash flows for the year ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in 2013 in Internal Control—Integrated Framework issued by the COSO.

/s/ Crowe Horwath LLP

Atlanta, Georgia

February 21, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Trustmark Corporation:

We have audited the accompanying consolidated balance sheet of Trustmark Corporation and subsidiaries (the Corporation) as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trustmark Corporation and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Jackson, Mississippi

February 23, 2016

Trustmark Corporation and Subsidiaries

Consolidated Balance Sheets

(\$ in thousands except share data)

	December 31,	
	2016	2015
Assets		
Cash and due from banks (noninterest-bearing)	\$327,706	\$277,751
Federal funds sold and securities purchased under reverse repurchase agreements	500	250
Securities available for sale (at fair value)	2,356,682	2,345,422
Securities held to maturity (fair value: \$1,157,046-2016; \$1,195,367-2015)	1,158,643	1,187,818
Loans held for sale (LHFS)	175,927	160,189
Loans held for investment (LHFI)	7,851,213	7,091,385
Less allowance for loan losses, LHFI	71,265	67,619
Net LHFI	7,779,948	7,023,766
Acquired loans:		
Noncovered loans	268,633	372,711
Covered loans	3,614	17,700
Less allowance for loan losses, acquired loans	11,397	11,992
Net acquired loans	260,850	378,419
Net LHFI and acquired loans	8,040,798	7,402,185
Premises and equipment, net	184,987	195,656
Mortgage servicing rights	80,239	74,007
Goodwill	366,156	366,156
Identifiable intangible assets	20,680	27,546
Other real estate, excluding covered other real estate	62,051	77,177
Covered other real estate	—	1,651
FDIC indemnification asset	—	738
Other assets	577,964	562,350
Total Assets	\$13,352,333	\$12,678,896
Liabilities		
Deposits:		
Noninterest-bearing	\$2,973,238	\$2,998,694
Interest-bearing	7,082,774	6,589,536
Total deposits	10,056,012	9,588,230
Federal funds purchased and securities sold under repurchase agreements	539,817	441,042
Short-term borrowings	769,778	412,617
Long-term FHLB advances	251,049	501,155
Subordinated notes	—	49,969
Junior subordinated debt securities	61,856	61,856
Other liabilities	153,613	150,970
Total Liabilities	11,832,125	11,205,839
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		

Edgar Filing: TRUSTMARK CORP - Form 10-K

Issued and outstanding: 67,628,618 shares - 2016; 67,559,128 shares - 2015	14,091	14,076
Capital surplus	366,563	361,467
Retained earnings	1,185,352	1,142,908
Accumulated other comprehensive loss, net of tax	(45,798)	(45,394)
Total Shareholders' Equity	1,520,208	1,473,057
Total Liabilities and Shareholders' Equity	\$ 13,352,333	\$ 12,678,896

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Income

(\$ in thousands except per share data)

	Years Ended December 31,		
	2016	2015	2014
Interest Income			
Interest and fees on LHFS & LHFI	\$299,645	\$274,433	\$263,582
Interest and fees on acquired loans	30,144	51,152	76,736
Interest on securities:			
Taxable	77,614	80,730	80,148
Tax exempt	3,675	4,323	4,869
Interest on federal funds sold and securities purchased under reverse repurchase agreements	14	8	23
Other interest income	988	1,579	1,524
Total Interest Income	412,080	412,225	426,882
Interest Expense			
Interest on deposits	12,748	12,598	15,323
Interest on federal funds purchased and securities sold under repurchase agreements	1,717	801	550
Other interest expense	10,082	7,061	5,673
Total Interest Expense	24,547	20,460	21,546
Net Interest Income	387,533	391,765	405,336
Provision for loan losses, LHFI	10,957	8,375	1,211
Provision for loan losses, acquired loans	3,757	3,425	6,171
Net Interest Income After Provision for Loan Losses	372,819	379,965	397,954
Noninterest Income			
Service charges on deposit accounts	45,253	47,366	48,671
Bank card and other fees	27,906	28,298	32,966
Mortgage banking, net	28,212	30,176	24,780
Insurance commissions	36,764	36,424	33,468
Wealth management	30,492	31,369	32,343
Other, net	5,626	(484)	614
Securities (losses) gains, net	(310)	—	300
Total Noninterest Income	173,943	173,149	173,142
Noninterest Expense			
Salaries and employee benefits	239,637	230,198	226,694
Services and fees	58,695	57,534	56,598
Net occupancy - premises	24,982	25,318	26,468
Equipment expense	24,225	23,859	23,860
Other real estate expense	586	4,903	11,321
FDIC assessment expense	11,243	10,728	10,197
Other expense	47,930	49,122	53,867
Total Noninterest Expense	407,298	401,662	409,005
Income Before Income Taxes	139,464	151,452	162,091

Edgar Filing: TRUSTMARK CORP - Form 10-K

Income taxes	31,053	35,414	38,529
Net Income	\$108,411	\$116,038	\$123,562
Earnings Per Share			
Basic	\$1.60	\$1.72	\$1.83
Diluted	\$1.60	\$1.71	\$1.83

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(\$ in thousands)

	Years Ended December 31,		
	2016	2015	2014
Net income per consolidated statements of income	\$108,411	\$116,038	\$123,562
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	(9,667)	(10,309)	10,933
Less: adjustment for net losses (gains) realized in net income	191	—	(185)
Change in net unrealized holding losses on securities transferred to held to maturity	6,070	3,918	3,711
Pension and other postretirement benefit plans:			
Net change in prior service costs	154	154	154
Recognized net loss due to BancTrust termination	—	—	837
Recognized net loss due to lump sum settlements	2,412	1,371	559
Change in net actuarial loss	294	2,252	(13,374)
Derivatives:			
Change in the accumulated loss on effective cash flow hedge derivatives	(228)	(812)	(1,387)
Less: adjustment for loss realized in net income	370	516	(1)
Other comprehensive (loss) income, net of tax	(404)	(2,910)	1,247
Comprehensive income	\$108,007	\$113,128	\$124,809

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(\$ in thousands except per share data)

	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income (Loss)	Total
	Shares Outstanding	Amount	Surplus	Earnings		
Balance, January 1, 2014	67,372,980	14,038	349,680	1,034,966	(43,731)	1,354,953
Net income per consolidated statements of						
income	—	—	—	123,562	—	123,562
Other comprehensive income, net of tax	—	—	—	—	1,247	1,247
Cash dividends paid on common stock						
(\$0.92 per share)	—	—	—	(62,474)	—	(62,474)
Common stock issued, long-term						
incentive plan	109,012	22	2,412	(3,934)	—	(1,500)
Compensation expense, long-term						
incentive plan	—	—	4,152	—	—	4,152
Balance, December 31, 2014	67,481,992	14,060	356,244	1,092,120	(42,484)	1,419,940
Net income per consolidated statements of						
income	—	—	—	116,038	—	116,038
Other comprehensive loss, net of tax	—	—	—	—	(2,910)	(2,910)
Cash dividends paid on common stock						
(\$0.92 per share)	—	—	—	(62,605)	—	(62,605)
Common stock issued, long-term						
incentive plan	77,136	16	1,555	(2,645)	—	(1,074)
Compensation expense, long-term						
incentive plan	—	—	3,668	—	—	3,668
Balance, December 31, 2015	67,559,128	14,076	361,467	1,142,908	(45,394)	1,473,057
Net income per consolidated statements of						
income	—	—	—	108,411	—	108,411

Edgar Filing: TRUSTMARK CORP - Form 10-K

Other comprehensive loss, net of tax	—	—	—	—	(404)	(404)	
Cash dividends paid on common stock									
(\$0.92 per share)	—	—	—	(62,666)	—	(62,666)	
Common stock issued, long-term									
incentive plan	103,112	22	2,155	(3,301)	—	(1,124)	
Repurchase and retirement of common stock	(33,622)	(7)	(743)	—	(750)
Compensation expense, long-term									
incentive plan	—	—	3,684	—	—	—	3,684		
Balance, December 31, 2016	67,628,618	\$14,091	\$366,563	\$1,185,352	\$ (45,798)	\$1,520,208		

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(\$ in thousands)

	Years Ended December 31,		
	2016	2015	2014
Operating Activities			
Net income per consolidated statements of income	\$ 108,411	\$ 116,038	\$ 123,562
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses, net	14,714	11,800	7,382
Depreciation and amortization	36,613	37,056	36,072
Net amortization of securities	9,664	7,793	7,701
Securities losses (gains), net	310	—	(300)
Gains on sales of loans, net	(20,531)	(17,953)	(10,762)
Deferred income tax provision	18,000	14,800	18,700
Proceeds from sales of loans held for sale	1,404,852	1,264,303	924,289
Purchases and originations of loans held for sale	(1,392,155)	(1,279,321)	(893,569)
Originations of mortgage servicing rights	(16,745)	(17,598)	(12,293)
Earnings on bank-owned life insurance	(4,883)	(4,824)	(4,728)
Net (increase) decrease in other assets	(20,129)	28,794	4,886
Net increase (decrease) in other liabilities	7,284	6,608	(6,010)
Other operating activities, net	2,022	4,391	16,337
Net cash provided by operating activities	147,427	171,887	211,267
Investing Activities			
Proceeds from maturities, prepayments and calls of securities held to maturity	277,373	126,546	93,471
Proceeds from maturities, prepayments and calls of securities available for sale	486,915	479,927	405,186
Proceeds from sales of securities available for sale	24,693	—	56,814
Purchases of securities held to maturity	(239,446)	(107,679)	(90,114)
Purchases of securities available for sale	(547,112)	(504,920)	(631,713)
Net proceeds from bank-owned life insurance	2,585	648	—
Net (increase) decrease in federal funds sold and securities purchased under reverse			
repurchase agreements	(250)	1,635	5,368
Net increase in member bank stock	(8,386)	(18,480)	—
Net increase in loans	(677,296)	(528,050)	(437,240)
Purchases of premises and equipment	(10,208)	(12,757)	(12,389)
Proceeds from sales of premises and equipment	6,799	3,061	4,641
Proceeds from sales of other real estate	42,809	48,898	48,119
Purchases of software	(8,024)	(8,741)	—
Investments in tax credit and other partnerships	(116)	(4,578)	(5,435)
Distributions received for investments in tax credit and other partnerships	—	—	7,037
Purchase of insurance book of business	—	(2,787)	—

Edgar Filing: TRUSTMARK CORP - Form 10-K

Net cash used in investing activities	(649,664)	(527,277)	(556,255)
Financing Activities			
Net increase (decrease) in deposits	467,782	(110,128)	(161,544)
Net increase (decrease) in federal funds purchased and securities sold under			
repurchase agreements	98,775	(2,501)	191,956
Net (decrease) increase in short-term borrowings	(150,748)	(7,293)	348,920
Proceeds from long-term FHLB advances	250,000	500,000	—
Payments on long-term FHLB advances	(94)	(94)	(156)
Payment of subordinated debt	(50,000)	—	—
Common stock dividends	(62,666)	(62,605)	(62,474)
Common stock issued-net, long-term incentive plan	—	—	(1,307)
Repurchase and retirement of common stock	(750)	—	—
Excess tax expense from stock-based compensation arrangements	(107)	(211)	(195)
Net cash provided by financing activities	552,192	317,168	315,200
Increase (Decrease) in cash and cash equivalents	49,955	(38,222)	(29,788)
Cash and cash equivalents at beginning of year	277,751	315,973	345,761
Cash and cash equivalents at end of year	\$327,706	\$277,751	\$315,973

See notes to consolidated financial statements.

Note 1 – Significant Accounting Policies

Business

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 193 offices in Alabama, Florida, Mississippi, Tennessee and Texas.

Basis of Financial Statement Presentation

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 consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting periods and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2017 actual conditions could vary from those anticipated, which could affect Trustmark's financial condition and results of operations. Actual results could differ from those estimates.

Securities

Securities are classified as either held to maturity, available for sale or trading. Securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and the ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income (loss), net of tax. Securities available for sale are used as part of Trustmark's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment rates and other factors. Management determines the appropriate classification of securities at the time of purchase. Trustmark currently has no securities classified as trading.

The amortized cost of debt securities classified as securities held to maturity or securities available for sale is adjusted for amortization of premiums and accretion of discounts to maturity of the security using the interest method. Such amortization or accretion is included in interest on securities. Realized gains and losses are determined using the specific identification method and are included in noninterest income as securities (losses) gains, net.

Securities transferred from the available for sale category to the held to maturity category are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with the transfer of securities from available for sale to held to maturity are included in the balance of accumulated other comprehensive loss in the consolidated balance sheets. These unrealized holding gains or losses are amortized over the remaining life of the security as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

Trustmark reviews securities for impairment quarterly. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is

recognized as a component of other comprehensive income (loss), net of tax. In estimating other-than-temporary impairment losses, Management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and Trustmark's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale (LHFS)

Primarily, all mortgage loans purchased from wholesale customers or originated in Trustmark's General Banking Division are considered to be held for sale. In certain circumstances, Trustmark will retain a mortgage loan in its portfolio based on banking relationships or certain investment strategies. Trustmark has elected to account for its mortgage loans purchased or originated which are held for sale under the fair value option permitted by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825, "Financial Instruments," with interest income on the mortgage LHFS reported in interest and fees on LHFS and LHFI. Mortgage LHFS in the secondary market are actively managed and monitored and certain market risks of the loans may be mitigated through the use of derivatives. Trustmark reports unrealized gains and losses resulting from changes in the fair value of the mortgage LHFS accounted for under the fair value option as noninterest income in mortgage banking, net. Realized gains and losses upon ultimate sale of the loans are recorded in noninterest income in mortgage banking, net.

Government National Mortgage Association (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. Under FASB ASC Topic 860, "Transfers and Servicing," 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 LHFS, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as LHFS with the offsetting liability being reported as short-term borrowings. The fair value option election does not apply to the GNMA optional repurchase loans which do not meet the requirements under FASB ASC Topic 825 to be accounted for under the fair value option.

Trustmark defers the upfront loan fees and costs related to the mortgage LHFS. In general, the mortgage LHFS are only retained on Trustmark's balance sheet for 30 to 45 days before they are pooled and sold in the secondary market. The difference between deferring these loan fees and costs until the loans are sold and recognizing them in earnings as incurred as required by FASB ASC Topic 825-10 is considered immaterial. Deferred loan fees and costs are reflected in the basis of LHFS and, as such, impact the resulting gain or loss when loans are sold.

Loans Held for Investment (LHFI)

LHFI are stated at the amount of unpaid principal, adjusted for the net amount of direct costs and nonrefundable loan fees associated with lending. The net amount of nonrefundable loan origination fees and direct costs associated with the lending process, including commitment fees, is deferred and accreted to interest income over the lives of the loans using a method that approximates the interest method. Interest on LHFI is accrued and recorded as interest income based on the outstanding principal balance.

Past due LHFI are loans contractually past due 30 days or more as to principal or interest payments. A LHFI is classified as nonaccrual, and the accrual of interest on such loan is discontinued, when the contractual payment of principal or interest becomes 90 days past due on commercial credits and 120 days past due on non-business purpose credits. In addition, a credit may be placed on nonaccrual at any other time Management has serious doubts about further collectibility of principal or interest according to the contractual terms, even though the loan is currently performing. A LHFI may remain in accrual status if it is in the process of collection and well secured. When a LHFI is placed in nonaccrual status, interest accrued but not received is reversed against interest income. Interest payments received on nonaccrual LHFI are applied against principal under the cost-recovery method, until qualifying for return to accrual status. Under the cost-recovery method, interest income is not recognized until the principal balance is reduced to zero. LHFI are restored to accrual status when the obligation is brought current or has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

A LHFI is considered impaired when, based on current information and events, it is probable that Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Trustmark considers all nonaccrual LHFI to be impaired loans. If a LHFI is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. All classes of commercial LHFI of \$500,000 or more, which are classified as nonaccrual, are identified for impairment analysis (specifically evaluated impaired LHFI). Specific impairment analysis on commercial nonaccrual LHFI under \$500,000 is not performed due to the insignificant number and dollar amount of these types of loans. Consistent with the policy for nonaccrual LHFI, interest payments on impaired LHFI are applied to principal. Impaired LHFI, or portions thereof, are charged off when deemed uncollectible.

Allowance for Loan Losses, LHFI

The allowance for loan losses, LHFI is established through provisions for estimated loan losses charged against net income. The allowance account is maintained at a level which is believed to be adequate by Management based on estimated probable losses within the LHFI portfolio. Evaluations of the portfolio and individual credits are inherently subjective, as they require estimates, assumptions and judgments as to the facts and circumstances of particular situations. Some of the factors considered, such as amounts and timing of future cash flows expected to be received, may be susceptible to significant change.

Trustmark's allowance methodology is based on guidance provided in Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues," as well as other regulatory guidance. The allowance for loan losses, LHFI consists of three components: (i) a historical valuation allowance determined in accordance with FASB ASC Topic 450, "Contingencies," based on historical loan loss experience for LHFI with similar characteristics and trends, (ii) a specific valuation allowance determined in accordance with FASB ASC Topic 310 "Receivables," based on probable losses on specific LHFI and (iii) a qualitative risk valuation allowance determined in accordance with FASB ASC

Topic 450 based on general economic conditions and other specific internal and external qualitative risk factors. Each of these components calls for estimates, assumptions and judgments as described below.

Historical Valuation Allowance

The historical valuation allowance is derived by application of a historical net loss percentage to the outstanding balances of LHFI contained in designated pools and risk rating categories. Pools are established by grouping credits that display similar characteristics and trends such as commercial LHFI for working capital purposes and non-working capital purposes, commercial real estate LHFI (which are further segregated into 1-4 family construction, non 1-4 family construction, land, lots and development, owner-occupied and non-owner occupied categories), other commercial loans, 1-4 family LHFI, 1-4 family LHFI secured by junior liens and other consumer LHFI. Within these pools, LHFI are further segregated based on Trustmark's internal credit risk rating process that evaluates, among other things: the obligor's ability and willingness to pay, the value of underlying collateral, the ability of guarantors to meet their payment obligations, management experience and effectiveness, and the economic environment and industry in which the borrower operates. The historical net loss percentages, calculated on a quarterly basis, are proportionally distributed to each risk rate within loan groups based upon degree of risk. Using third-party default data, which is updated annually to incorporate the most recent year's information, average cumulative issuer-weighted global default rates by alphanumeric rating are aggregated by Trustmark's commercial loan risk rates. Management uses the long-term default rates to measure the relative risk across the risk rates while the 12-quarter quantitative loss rate sets the absolute level of allowance for loan loss reserve. Further, given the volatility in the default data, the longer look-back period provides for a more stable allowance for loan loss estimate which better reflects the incremental risk across the risk rates.

The historical net loss percentages are calculated using a 12 quarter look-back period, which is the period that best reflects losses inherent in the current loan portfolio. The look-back period sufficiently captures the volatility in net charge-off rates from quarter to quarter and affects the qualitative adjustments that are required to capture the differences in conditions between the current period and those that were prevailing during the look-back period.

The loss emergence period (LEP) refers to the period of time between the events that trigger a loss and charge-off of that loss. Losses are usually not immediately known and determining the loss event can be difficult. It takes time for the borrower and extent of loss to be identified and determined. Management may not be aware that the loss event has occurred until the borrower exhibits the inability to pay or other evidence of credit deterioration. The LEP is evaluated annually to incorporate the most recent year's data and adjusted as necessary.

Loans-Specific Valuation Allowance

Once a LHFI is classified, it is subject to periodic review to determine whether or not the loan is impaired. If determined to be impaired, the loan is evaluated using one of the valuation criteria contained in FASB ASC Topic 310. A formal impairment analysis is performed on all commercial non-accrual LHFI with an outstanding balance of \$500,000 or more, and based upon this analysis LHFI are written down to net realizable value.

Qualitative Risk Valuation Allowance

The qualitative risk valuation allowance is based on general economic conditions and other internal and external factors affecting Trustmark as a whole as well as specific LHFI. Factors considered include the following within Trustmark's five key market regions: the experience, ability, and effectiveness of Trustmark's lending management and staff; adherence to Trustmark's loans policies, procedures, and internal controls; the volume of exceptions relating to collateral, underwriting and financial documentation; credit concentrations; recent performance trends; regional economic trends; the impact of recent acquisitions; and the impact of significant natural disasters. These factors are evaluated on a quarterly basis with the results representing Trustmark's qualitative risk profile in the current period which is used to establish an appropriate allowance. The qualitative portion of the commercial and consumer LHFI

allowance for loan loss methodology also incorporates the use of maximum observed gross historical losses observed through the last economic cycle as a way to calculate a maximum qualitative reserve limit. The maximum observed gross historical losses as a percentage of the loan balances results in a maximum observed gross historical loss rate. Once the quantitative component of the allowance for loan loss methodology is calculated, the quantitative reserve percentage is deducted from the maximum observed gross historical loss rate to determine the maximum possible qualitative reserve limit. Management uses its qualitative factor evaluation process in conjunction with this maximum to determine the appropriate estimate of the qualitative considerations not captured by Trustmark's historical loss rates.

Other factors included in the qualitative risk valuation allowance include consideration of: commercial loan facility risk that embodies the nature, frequency and duration of the repayment structure as it pertains to the actual source of loan repayment, commercial nonaccrual loans under \$500 thousand which are below the threshold to perform an impairment analysis, and independent consumer credit bureau scores that are monitored to identify shifts in risk that are represented in the retail portfolio. These factors are also

evaluated on a quarterly basis with the exception of the commercial nonaccrual loans under \$500 thousand which are evaluated monthly.

Commercial purpose LHFI are charged off when a determination is made that the loan is uncollectible and continuance as a bankable asset is not warranted. Consumer LHFI secured by 1-4 family residential real estate are generally charged off or written down to the fair value of the collateral less cost to sell at no later than 180 days of delinquency. Non-real estate consumer purpose LHFI, including both secured and unsecured loans, are generally charged off by 120 days of delinquency. Consumer revolving lines of credit and credit card debt are generally charged off on or prior to 180 days of delinquency. LHFI are charged off against the allowance for loan losses, LHFI, with any subsequent recoveries credited back to the allowance account.

Acquired Loans

Acquired loans are accounted for under the acquisition method of accounting. The acquired loans are recorded at their estimated fair value at the time of acquisition. The fair value of acquired loans is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of defaults and current market rates. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date.

Trustmark accounts for acquired impaired loans under FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." An acquired loan is considered impaired when there is evidence of credit deterioration since origination and it is probable at the date of acquisition that Trustmark would be unable to collect all contractually required payments. Acquired loans accounted for under FASB ASC Topic 310-30 are referred to as "acquired impaired loans." Revolving credit agreements, such as home equity lines, and commercial leases are excluded from acquired impaired loan accounting requirements.

For acquired impaired loans, Trustmark (a) calculates the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (b) estimates the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). Under FASB ASC Topic 310-30, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the acquired impaired loan portfolio, and such amount is subject to change over time based on the performance of such loans. The excess of undiscounted expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the "accretable yield" 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. Under the effective yield method, the accretable yield is recorded as an accretion of interest income over the life of the loan.

Trustmark aggregates certain acquired impaired loans into pools of loans with common credit risk characteristics such as loan type and risk rating. To establish accounting pools of acquired impaired loans, loans are first categorized by similar purpose, collateral and geographic region. Within each category, the acquired impaired loans are further segmented by ranges of risk determinants observed at the time of acquisition. For commercial loans, the primary risk determinant is the risk rating as assigned by Trustmark. For consumer acquired impaired loans, the risk determinants include delinquency, delinquency history and FICO scores. Statistical comparison of the pools reflect that each pool is comprised of acquired impaired loans generally of similar characteristics, including loan type, loan risk and weighted average life. Each pool is then reviewed for similarity of the pool constituents, including standard deviation of purchase price, weighted average life and concentration of the largest loans. Loan pools are initially booked at the aggregate fair value of the loan pool constituents, based on the present value of Trustmark's expected cash flows from the acquired impaired loans. An acquired impaired loan is removed from a pool of loans only if the loan is sold, foreclosed, payment is received in full satisfaction of the loan or the loan is fully charged off. The acquired impaired

loan is removed from the pool at the carrying value. When an individual acquired impaired loan is removed from a pool of loans, the difference between its relative carrying amount and its cash, fair value of the collateral, or other assets received will be recognized as a gain or loss immediately in interest income on loans and would not affect the effective yield used to recognize the accretable yield on the remaining pool. Certain acquired impaired loans are not pooled and are accounted for individually. Such acquired impaired loans are withheld from pools due to the inherent uncertainty of the timing and amount of their cash flows or because they are not a suitable similar constituent to the established pools.

As required by FASB ASC Topic 310-30, Trustmark periodically re-estimates the expected cash flows to be collected over the life of the acquired impaired loans. If, based on current information and events, it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition, the acquired loans are considered impaired. The decrease in the expected cash flows reduces the carrying value of the acquired impaired loans as well as the accretable yield and results in a charge-off through the allowance for loan losses, acquired loans or the establishment of an allowance for loan losses, acquired loans with a charge to income through the provision for loan losses, acquired loans. If, based on current information and events, it is probable that there is a significant increase in the cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, Trustmark

will reduce any remaining allowance for loan losses, acquired loans established on the acquired impaired loans for the increase in the present value of cash flows expected to be collected. The increase in the expected cash flows for the acquired impaired loans over those originally estimated at acquisition increases the carrying value of the acquired impaired loans as well as the accretable yield. The increase in the accretable yield is recognized as interest income prospectively over the remaining life of the acquired impaired loans. The carrying value of acquired impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

Under FASB ASC Topic 310-30, acquired impaired loans are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans as long as the estimated cash flows are received as expected. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income may be recognized on a cash basis or as a reduction of the principal amount outstanding.

Covered Loans

Loans acquired in a FDIC-assisted transaction and covered under loss-share agreements are referred to as “covered loans” and are reported separately in Trustmark’s consolidated financial statements. Covered loans are recorded at their estimated fair value at the time of acquisition exclusive of the expected reimbursement cash flows from the Federal Deposit Insurance Corporation (FDIC).

FDIC Indemnification Asset

Trustmark accounts for amounts receivable under a loss-share agreement as an indemnification asset in accordance with FASB ASC Topic 805, “Business Combinations.” A FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value at the acquisition date and the undiscounted cash flows Trustmark expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. Pursuant to the provisions of the loss-share agreement, the FDIC indemnification asset is presented net of any true-up payable due to the FDIC at the termination of the loss-share agreement.

The FDIC indemnification asset is reduced as expected losses on covered loans and covered other real estate decline or as loss-share claims are submitted to the FDIC. The FDIC indemnification asset is revalued concurrent with the loan re-estimation and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of covered loans and covered other real estate. These adjustments are measured on the same basis as the related covered loans and covered other real estate. Increases in the cash flows of the covered loans and covered other real estate over those expected reduce the FDIC indemnification asset, and decreases in the cash flows of the covered loans and covered other real estate below those expected increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income in other, net.

Write-downs of the FDIC indemnification asset resulting from improvements in expected cash flows and covered losses based on the re-estimation of acquired covered loans are amortized over the lesser of the remaining life or contractual FDIC agreement period of the acquired covered loan as a yield adjustment consistent with the associated acquired covered loan. All other valuation changes of the FDIC indemnification asset (i.e., pay-offs of acquired covered loans, sales of covered other real estate, and reductions of FDIC loss claims) are accounted for under the “collectibility method,” which recognized write-downs of the FDIC indemnification asset immediately in noninterest income.

Premises and Equipment, Net

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is charged to expense over the estimated useful lives of the assets, which are up to thirty-nine years for buildings and three to ten years for furniture and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. In cases where Trustmark has the right to renew the lease for additional periods, the lease term for the purpose of calculating amortization of the capitalized cost of the leasehold improvements is extended when Trustmark is “reasonably assured” that it will renew the lease. Depreciation and amortization expenses are computed using the straight-line method. Trustmark continually evaluates whether events and circumstances have occurred that indicate that such long-lived assets have become impaired. Measurement of any impairment of such long-lived assets is based on the fair values of those assets.

Branch closures and purchased land held for future branch expansion for more than five years are evaluated to determine if the related land, buildings and building improvements should be transferred to assets held for sale in accordance with FASB ASC Topic 360, “Property, Plant and Equipment.” The property is transferred to assets held for sale at the lower of its carrying value or fair value less cost to sell. An impairment loss is recorded at the time of transfer if the carrying value of the assets exceeds the fair value.

Impairment losses are recorded to non-interest expense in other expense. There were \$750 thousand of impairment losses on premises and equipment recorded during 2016, compared to no impairment losses on premises and equipment recorded during 2015 or 2014.

Mortgage Servicing Rights (MSR)

Trustmark recognizes as assets the rights to service mortgage loans based on the estimated fair value of the MSR when loans are sold and the associated servicing rights are retained. Trustmark has elected to account for the MSR at fair value.

The fair value of the MSR is determined using discounted cash flow techniques benchmarked against third-party valuations. Estimates of fair value involve several assumptions, including the key valuation assumptions about market expectations of future prepayment rates, interest rates and discount rates which are provided by a third-party firm. Prepayment rates are projected using an industry standard prepayment model. The model considers other key factors, such as a wide range of standard industry assumptions tied to specific portfolio characteristics such as remittance cycles, escrow payment requirements, geographic factors, foreclosure loss exposure, VA no-bid exposure, delinquency rates and cost of servicing, including base cost and cost to service delinquent mortgages. Prevailing market conditions at the time of analysis are factored into the accumulation of assumptions and determination of servicing value.

Trustmark economically hedges changes in fair value of the MSR attributable to interest rates. See Note 1 – Significant Accounting Policies, “Derivative Financial Instruments – Derivatives not Designated as Hedging Instruments” for information regarding these derivative instruments.

Trustmark receives annual servicing fee income for loans serviced, which is recorded to noninterest income in mortgage banking, net. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Late fees and ancillary fees related to loan servicing are not considered material.

Goodwill and Identifiable Intangible Assets

Trustmark accounts for goodwill and other intangible assets in accordance with FASB ASC Topic 350, “Intangibles – Goodwill and Other.” Goodwill, which represents the excess of cost over the fair value of the net assets of an acquired business, is not amortized but tested for impairment on an annual basis, which is October 1 for Trustmark, or more often if events or circumstances indicate that there may be impairment.

Identifiable intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or legal rights or because the assets are capable of being sold or exchanged either on their own or in combination with a related contract, asset or liability. Trustmark’s identifiable intangible assets primarily relate to core deposits, insurance customer relationships and borrower relationships. These intangibles, which have definite useful lives, are amortized on an accelerated basis over their estimated useful lives. In addition, these intangibles are evaluated annually for impairment or whenever events and changes in circumstances indicate that the carrying amount should be reevaluated. Trustmark also purchased banking charters in order to facilitate its entry into the states of Florida and Texas. These identifiable intangible assets are being amortized on a straight-line method over 20 years.

Other Real Estate

Other real estate includes assets that have been acquired in satisfaction of debt through foreclosure and is recorded at the lower of cost or estimated fair value. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan losses. Other real estate is revalued on an annual basis or more often if market conditions necessitate. An other real estate specific reserve

may be recorded through other real estate expense for declines in fair value subsequent to foreclosure based on recent appraisals or changes in market conditions. Subsequent to foreclosure, losses on the periodic revaluation of the property are charged against an existing other real estate specific reserve or to noninterest expense in other real estate expense if a reserve does not exist. Costs of operating and maintaining the properties as well as gains or losses on their disposition are also included in other real estate expense as incurred. Improvements made to properties are capitalized if the expenditures are expected to be recovered upon the sale of the properties.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank of Atlanta Stock

Securities with limited marketability, such as stock in the Federal Reserve Bank of Atlanta and the FHLB, are carried at cost. Trustmark's investment in member bank stock is included in other assets in the accompanying consolidated balance sheets because these equity securities do not have a readily determinable fair value, which places them outside the scope of FASB ASC Topic 320, "Investments – Debt and Equity Securities." At December 31, 2016 and 2015, Trustmark's investment in member bank stock totaled

\$71.0 million and \$62.6 million, respectively. The carrying value of Trustmark's member bank stock gave rise to no other-than-temporary impairment for the years ended December 31, 2016, 2015 and 2014.

Insurance Commissions

Commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later. Trustmark also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by Trustmark. Contingent commissions from insurance companies are recognized throughout the calendar year using reasonable estimates that are continuously reviewed and revised to reflect current experience. Trustmark maintains reserves for commission adjustments and doubtful accounts receivable which were not considered significant at December 31, 2016 or 2015.

Wealth Management

Assets under administration held by Trustmark in a fiduciary or agency capacity for customers are not included in Trustmark's consolidated balance sheets. Investment management and trust fee income is recorded on a cash basis, which because of the regularity of the billing cycles, approximates the accrual method, in accordance with industry practice.

Derivative Financial Instruments

Trustmark maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. Trustmark's interest rate risk management strategy involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Under the guidelines of FASB ASC Topic 815, "Derivatives and Hedging," all derivative instruments are required to be recognized as either assets or liabilities and carried at fair value on the balance sheet. The fair value of derivative positions outstanding is included in other assets and/or other liabilities in the accompanying consolidated balance sheets and in the net change in these financial statement line items in the accompanying consolidated statements of cash flows as well as included in noninterest income in the accompanying consolidated statements of income and other comprehensive income (loss), net of tax in the accompanying consolidated statements of comprehensive income. Trustmark's interest rate swap derivative instruments are subject to master netting agreements, and therefore, eligible for offsetting in the consolidated balance sheets. Trustmark has elected to not offset any derivative instruments in its consolidated balance sheets.

Derivatives Designated as Hedging Instruments

During 2013, Trustmark entered into a forward interest rate swap contract on its junior subordinated debentures, with the objective of protecting the quarterly interest payments from the risk of variability of those payments resulting from changes in the three-month LIBOR interest rate for the five-year period beginning December 31, 2014 and ending December 31, 2019. This derivative instrument was designated as a cash flow hedge under FASB ASC Topic 815. Any accumulated net after-tax gains related to effective cash flow hedge are included in accumulated other comprehensive loss. Any ineffective portion of the interest rate swap is reclassified from accumulated other comprehensive loss to noninterest expense in the consolidated statements of income for the relevant periods. Beginning December 31, 2014, the effective date of the interest rate swap, amounts reported in accumulated other comprehensive loss related to this derivative will be reclassified to other interest expense as interest payments are made on Trustmark's variable rate junior subordinated debentures.

Derivatives not Designated as Hedging Instruments

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in fair value of MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. These exchange-traded derivative instruments are accounted for at fair value with changes in the fair value recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of the MSR. The MSR fair value represents the present value of future cash flows, which among other things includes decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the change in value of hedge instruments to the change in the fair value of the MSR asset attributable to changes in interest rates and other market driven changes in valuation inputs and assumptions.

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. On October 1, 2014, Trustmark elected to account for its mortgage LHFS under the fair value option in order to reduce the accounting volatility of related hedges. As a result of this election, the forward sales

contracts no longer qualify as derivative instruments designated as fair value hedges under FASB ASC Topic 815. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of LHFS. See Note 1 – Significant Accounting Policies, “Loans Held for Sale (LHFS)” for information regarding the fair value option election.

Trustmark also utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified time period. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of forward sales contracts.

Trustmark offers certain derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivative transactions executed as part of this program are not designated as qualifying hedging relationships and are, therefore, carried at fair value with the change in fair value recorded in noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset.

Income Taxes

Trustmark accounts for uncertain tax positions in accordance with FASB ASC Topic 740, “Income Taxes,” which clarifies the accounting and disclosure for uncertainty in tax positions. Under the guidance of FASB ASC Topic 740, Trustmark accounts for deferred income taxes using the liability method. Deferred tax assets and liabilities are based on temporary differences between the financial statement carrying amounts and the tax basis of Trustmark’s assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled and are presented net in the balance sheet in other assets.

Stock-Based Compensation

Trustmark accounts for the stock and incentive compensation under the provisions of FASB ASC Topic 718, “Compensation – Stock Compensation.” Under this accounting guidance, fair value is established as the measurement objective in accounting for stock awards and requires the application of a fair value based measurement method in accounting for compensation cost, which is recognized over the requisite service period.

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. The following table reflects specific transaction amounts for the periods presented (\$ in thousands):

	Years Ended December 31,		
	2016	2015	2014
Income taxes paid	\$24,836	\$16,321	\$13,710
Interest expense paid on deposits and borrowings	24,312	20,733	22,268
Noncash transfers from loans to foreclosed properties (1)	23,965	32,782	39,778
Transfer of long-term FHLB advances to short-term	500,009	—	6,644

(1) Includes transfers from covered loans to foreclosed properties.

Per Share Data

Trustmark accounts for per share data in accordance with FASB ASC Topic 260, "Earnings Per Share," which provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method. Trustmark has determined that its outstanding unvested stock awards and deferred stock units are not participating securities. Based on this determination, no change has been made to Trustmark's current computation for basic and diluted EPS.

Basic EPS is computed by dividing net income by the weighted-average shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted-average shares of common stock outstanding, adjusted for the effect of potentially dilutive stock awards outstanding during the period.

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

	Years Ended December 31,		
	2016	2015	2014
Basic shares	67,620	67,550	67,434
Dilutive shares	164	142	160
Diluted shares	67,784	67,692	67,594

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):

	Years Ended December 31,		
	2016	2015	2014
Weighted-average antidilutive stock awards	2	1	32

Fair Value Measurements

FASB ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. Depending on the nature of the asset or liability, Trustmark uses various valuation techniques and assumptions when estimating fair value. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that Trustmark has the ability to access at the measurement date.

Level 2 Inputs – Valuation is based upon quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates and inputs that are derived principally from or corroborated by observable market data.

Level 3 Inputs – Unobservable inputs reflecting the reporting entity's own determination about the assumptions that market participants would use in pricing the asset or liability based on the best information available.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety is classified is based on the lowest level input that is significant to the fair value measurement in its entirety. Trustmark's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and

considers factors specific to the asset or liability.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” Issued in August 2016, ASU 2016-15 provides guidance to reduce the diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments of ASU 2016-15 provide guidance on eight specific cash flow: (i) debt prepayment or debt extinguishment costs; (ii) settlement of zero-coupon bonds; (iii) contingent consideration payments made after a business combination; (iv) proceeds from the settlement of insurance claims; (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. The amendments of ASU 2016-15 are effective for interim and annual periods beginning after December 15, 2017. Management has evaluated the amendments of ASU 2016-15 and does not believe that adoption of this ASU will impact Trustmark’s existing presentation of the applicable cash receipts and cash payments on its consolidated statements of cash flows.

ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” Issued in June 2016, ASU 2016-13 will add FASB ASC Topic 326, “Financial Instruments-Credit Losses” and finalizes amendments to FASB ASC Subtopic 825-15, “Financial Instruments-Credit Losses.” The amendments of ASU 2016-13 are intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss

estimates. The amendments of ASU 2016-13 eliminate the probable initial recognition threshold and, in turn, reflect an entity's current estimate of all expected credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a write-down. The amendments of ASU 2016-13 are effective for interim and annual periods beginning after December 15, 2019. Earlier application is permitted for interim and annual periods beginning after December 15, 2018. Trustmark plans to adopt the amendments of ASU 2016-13 during the first quarter of 2020. Trustmark has established a steering committee which includes the appropriate members of Management to evaluate the impact this ASU will have on Trustmark's financial position, results of operations and financial statement disclosures and determine the most appropriate method of implementing the amendments in this ASU as well as any resources needed to implement the amendments.

ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Issued in March 2016, ASU 2016-09 seeks to reduce complexity in accounting standards by simplifying several aspects of the accounting for share-based payment transactions. The amendments of ASU 2016-09 include: (i) requiring all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement; (ii) requiring excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flow; (iii) allowing an entity to make an entity-wide accounting policy election to either estimate the number of awards that expect to vest or account for forfeitures when they occur; (iv) change the threshold to qualify for equity classification to permit withholding up to the maximum statutory tax rates in the applicable jurisdictions; and (v) requiring that cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows. The amendments of ASU 2016-09 became effective for Trustmark on January 1, 2017 and did not have a material impact on Trustmark's consolidated financial statements. Trustmark has made an entity-wide accounting policy election to account for forfeitures of stock awards as they occur. Changes to Trustmark's consolidated statement of cash flows required by the amendments of ASU 2016-09 will be presented in the Quarterly Report on Form 10-Q for the three month period ending March 31, 2017. Excess tax expense and cash paid by Trustmark for shares withheld for tax-withholding purposes for the year ended December 31, 2016 totaled \$107 thousand and \$1.0 million, respectively.

ASU 2016-02, "Leases (Topic 842)." Issued in February 2016, ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments of ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018. Trustmark plans to adopt the amendments of ASU 2016-02 beginning in the first quarter of 2019. At adoption, Trustmark will recognize a lease asset and a corresponding lease liability on its consolidated balance sheet for its total lease obligation measured on a discounted basis. As of December 31, 2016, all leases in which Trustmark was the lessee were classified as operating leases and the total outstanding lease obligation was \$58.0 million, or 0.4% of total assets. Trustmark does not anticipate any material impact to its consolidated statements of income as a result of the adoption of this ASU. Trustmark has an immaterial amount of leases in which it is the lessor. Based on Management's evaluation to date, Trustmark does not expect the amendments of ASU 2016-02 to have any material impact to these leases or the related income. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated financial statements; however, the adoption of ASU 2016-02 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of the FASB Accounting Standards Codification)." Issued in January 2016,

ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The amendments of ASU 2016-01 include: (i) requiring equity investments, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income; (ii) requiring a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) requiring the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requiring an entity that has elected the fair value option to measure the fair value of a liability to present separately in other comprehensive income the portion of the change in the fair value resulting from a change in the instrument-specific credit risk; (vi) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The amendments of ASU 2016-01 are effective for interim and annual periods beginning after December 15, 2017. Trustmark plans to adopt the amendments of ASU 2016-01 during

the first quarter of 2018. Management has evaluated the impact this ASU will have on Trustmark's consolidated financial statements. Through this evaluation, Management has determined that the principal areas impacted by the amendments of ASU 2016-01 will be Trustmark's investment in member bank stock, which are equity securities that do not have readily determinable fair values, and various fair value related disclosures. See Note 1 – Significant Accounting Policies, “Federal Home Loan Bank (FHLB) and Federal Reserve Bank of Atlanta Stock” for information regarding Trustmark's investment in member bank stock. The adoption of ASU 2016-01 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” Issued in May 2014, ASU 2014-09 will add FASB ASC Topic 606, “Revenue from Contracts with Customers,” and will supersede revenue recognition requirements in FASB ASC Topic 605, “Revenue Recognition,” as well as certain cost guidance in FASB ASC Topic 605-35, “Revenue Recognition – Construction-Type and Production-Type Contracts.” ASU 2014-09 provides a framework for revenue recognition that replaces the existing industry and transaction specific requirements under the existing standards. ASU 2014-09 requires an entity to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount in which the entity expects to be entitled. Depending on whether certain criteria are met, revenue should be recognized either over time, in a manner that depicts the entity's performance, or at a point in time, when control of the goods or services are transferred to the customer. ASU 2014-09 provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In addition, the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in ASU 2014-09. The amendments of ASU 2014-09 may be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If the transition method of application is elected, the entity should also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. ASU 2015-14, “Revenue from Contracts with Customers (Topic 606)-Deferral of the Effective Date,” issued in August 2015, defers the effective date of ASU 2014-09 by one year. ASU 2015-14 provides that the amendments of ASU 2014-09 become effective for interim and annual periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All subsequently issued ASUs which provide additional guidance and clarifications to various aspects of FASB ASC Topic 606 will become effective when the amendments of ASU 2014-09 become effective. Trustmark plans to adopt these amendments during the first quarter of 2018. Management is continuing to evaluate the impact ASU 2014-09 will have on Trustmark's consolidated financial statements as well as the most appropriate transition method of application. Based on this evaluation to date, Management has determined that the majority of the revenues earned by Trustmark are not within the scope of ASU 2014-09. Management also believes that for most revenue streams within the scope of ASU 2014-09, the amendments will not change the timing of when the revenue is recognized. Management will continue to evaluate the impact the adoption of ASU 2014-09 will have on Trustmark's consolidated financial statements, focusing on noninterest income sources within the scope of ASU 2014-09 as well as new disclosures required by these amendments; however, the adoption of ASU 2014-09 is not expected to have a material impact on Trustmark's consolidated financial statements.

On November 14, 2016, Trustmark and RB Bancorporation announced the signing of a definitive agreement pursuant to which RB Bancorporation would merge into Trustmark. RB Bancorporation, with assets of \$217.7 million as of December 31, 2016, is the holding company for Reliance Bank, which has seven offices serving the Huntsville, Alabama MSA. On January 20, 2017, Trustmark announced that all required regulatory approvals have been received in connection with the proposed merger of RB Bancorporation into Trustmark.

Under the terms of the definitive agreement, which has been approved unanimously by the Boards of Directors of both companies, holders of RB Bancorporation common stock will receive \$22.00 in cash for each share; the aggregate value of the transaction is approximately \$25.6 million. Subject to the receipt of shareholder approval of RB Bancorporation and customary closing conditions contained in the merger agreement, the transaction is expected to close during the first half of 2017. RB Bancorporation's bank subsidiary, Reliance Bank, will merge into TNB simultaneously with the merger of the respective parent companies.

Note 3 – Cash and Due from Banks

Trustmark is required to maintain average reserve balances with the Federal Reserve Bank of Atlanta based on a percentage of deposits. The average amounts of those reserves for the years ended December 31, 2016 and 2015 were \$94.7 million and \$82.1 million, respectively.

Note 4 – 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 December 31, 2016 and 2015 (\$ in thousands):

December 31, 2016	Securities Available for Sale				Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency obligations								
Issued by U.S. Government agencies	\$56,272	\$416	\$(925)	\$55,763	\$—	\$—	\$—	\$—
Issued by U.S. Government sponsored agencies	257	19	—	276	3,647	355	—	4,002
Obligations of states and political subdivisions	113,541	1,945	(113)	115,373	46,303	1,476	(27)	47,752
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	43,222	340	(776)	42,786	15,478	280	(52)	15,706
Issued by FNMA and FHLMC	638,809	1,773	(9,498)	631,084	81,299	223	(1,084)	80,438
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,271,198	5,865	(9,112)	1,267,951	803,474	3,208	(6,519)	800,163
Commercial mortgage-backed securities	242,869	1,766	(1,186)	243,449	208,442	1,758	(1,215)	208,985

Edgar Filing: TRUSTMARK CORP - Form 10-K

Issued or
guaranteed by
FNMA,

FHLMC or
GNMA

Total	\$2,366,168	\$ 12,124	\$ (21,610)	\$2,356,682	\$1,158,643	\$ 7,300	\$ (8,897)	\$1,157,046
-------	-------------	-----------	--------------	-------------	-------------	----------	-------------	-------------

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

Issued or

guaranteed by

FNMA,

278,429	2,689	(1,892)	279,226	182,401	1,700	(1,164)	182,937
---------	-------	----------	---------	---------	-------	----------	---------

Commercial

mortgage-backed

securities

Issued or

guaranteed by

FNMA,

FHLMC or
GNMA

Asset-backed
securities and
structured

financial products	25,003	79	(125)	24,957	—	—	—	—
Total	\$2,339,562	\$ 20,164	\$(14,304)	\$2,345,422	\$1,187,818	\$ 13,504	\$(5,955)	\$1,195,367

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

Edgar Filing: TRUSTMARK CORP - Form 10-K

recognized as a result of the transfer. At December 31, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately \$24.2 million (\$14.9 million, net of tax).

Temporarily Impaired Securities

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

	Less than 12 Months		12 Months or More		Total	
	Estimated	Gross Unrealized	Estimated	Gross Unrealized	Estimated	Gross Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
December 31, 2016						
U.S. Government agency obligations						
Issued by U.S. Government						
agencies	\$9,420	\$ (142)	\$33,248	\$ (783)	\$42,668	\$ (925)
Obligations of states and political						
subdivisions	20,539	(135)	654	(5)	21,193	(140)
Mortgage-backed securities						
Residential mortgage pass-through						
securities						
Guaranteed by GNMA	43,615	(822)	222	(6)	43,837	(828)
Issued by FNMA and FHLMC	588,352	(10,582)	—	—	588,352	(10,582)
Other residential mortgage-backed						
securities						
Issued or guaranteed by FNMA,						
FHLMC or GNMA	1,127,501	(12,722)	76,196	(2,909)	1,203,697	(15,631)
Commercial mortgage-backed						
securities						
Issued or guaranteed by FNMA,						
FHLMC or GNMA	244,050	(2,311)	4,655	(90)	248,705	(2,401)
Total	\$2,033,477	\$ (26,714)	\$114,975	\$ (3,793)	\$2,148,452	\$ (30,507)
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 December 31, 2016. There were no other-than-temporary impairments for the years ended December 31, 2016, 2015 and 2014.

Security Gains and Losses

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

Available for Sale	Years Ended December 31,		
	2016	2015	2014
Proceeds from calls and sales of securities	\$24,693	\$ —	\$56,815
Gross realized gains	32	—	456
Gross realized losses	(342)	—	(156)

Securities Pledged

Securities with a carrying value of \$1.999 billion and \$2.157 billion at December 31, 2016 and 2015, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At December 31, 2016 and 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 December 31, 2016, by contractual maturity, are shown below (\$ in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$33,592	\$33,793	\$145	\$145
Due after one year through five years	90,084	92,100	35,983	37,249
Due after five years through ten years	7,500	7,522	13,822	14,360
Due after ten years	38,894	37,997	—	—
	170,070	171,412	49,950	51,754
Mortgage-backed securities	2,196,098	2,185,270	1,108,693	1,105,292
Total	\$2,366,168	\$2,356,682	\$1,158,643	\$1,157,046

Note 5 – LHFI and Allowance for Loan Losses, LHFI

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

	December 31,	
	2016	2015
Loans secured by real estate:		
Construction, land development and other land	\$831,437	\$824,723
Secured by 1-4 family residential properties	1,660,043	1,649,501
Secured by nonfarm, nonresidential properties	2,034,176	1,736,476
Other real estate secured	318,148	211,228
Commercial and industrial loans	1,528,434	1,343,211
Consumer loans	170,562	169,135
State and other political subdivision loans	917,515	734,615
Other loans	390,898	422,496
LHFI	7,851,213	7,091,385
Less allowance for loan losses, LHFI	71,265	67,619
Net LHFI	\$7,779,948	\$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 December 31, 2016, Trustmark's geographic loan distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. Accordingly, the ultimate collectability of a substantial portion of these loans is susceptible to changes in market conditions in these areas.

Related Party Loans

At December 31, 2016 and 2015, loans to certain executive officers and directors, including their immediate families and companies in which they are principal owners, totaled \$47.1 million and \$82.2 million, respectively. During 2016, \$390.9 million of new loan advances were made, while repayments were \$389.6 million. In addition, decreases in loans due to changes in executive officers and directors totaled \$36.4 million.

Nonaccrual/Impaired LHFI

At December 31, 2016 and 2015, the carrying amounts of nonaccrual LHFI were \$49.2 million and \$55.3 million, respectively. Included in these amounts were \$14.4 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 years in the three-year period ended December 31, 2016.

Trustmark considers all nonaccrual LHFI to be impaired loans. All commercial nonaccrual LHFI (including those classified as TDRs) over \$500 thousand were 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 December 31, 2016 and 2015, specifically evaluated impaired LHFI totaled \$23.7 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 \$6.4 million, \$10.1 million and \$137 thousand for 2016, 2015 and 2014, respectively. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded. At December 31, 2016 and 2015, reserves related to specifically evaluated impaired LHFI totaled \$3.0 million and \$7.0 million, respectively. Provision recapture on specifically evaluated impaired LHFI totaled \$2.2 million for 2016, compared to provision expense of \$4.8 million and \$3.5 million for 2015 and 2014, respectively.

At December 31, 2016 and 2015, impaired LHFI, excluding the specifically evaluated impaired LHFI, totaled \$25.5 million and \$28.8 million, respectively. In addition, these impaired LHFI had allocated allowance for loan losses of \$2.5 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 years in the three-year period ended December 31, 2016.

Edgar Filing: TRUSTMARK CORP - Form 10-K

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

	December 31, 2016		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$3,323	\$828,114	\$831,437
Secured by 1-4 family residential properties	20,329	1,639,714	1,660,043
Secured by nonfarm, nonresidential properties	8,482	2,025,694	2,034,176
Other real estate secured	402	317,746	318,148
Commercial and industrial loans	15,824	1,512,610	1,528,434
Consumer loans	300	170,262	170,562
State and other political subdivision loans	—	917,515	917,515
Other loans	574	390,324	390,898
Total	\$49,234	\$7,801,979	\$7,851,213

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

	December 31, 2016					Average Recorded Investment
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	
Loans secured by real estate:						
Construction, land development and other land	\$6,743	\$ 2,260	\$ 1,063	\$3,323	\$ 616	\$ 4,723
Secured by 1-4 family residential properties	24,805	221	20,108	20,329	1,420	21,704
	11,227	5,784	2,698	8,482	851	13,141

Edgar Filing: TRUSTMARK CORP - Form 10-K

Secured by nonfarm, nonresidential
properties

Other real estate secured	429	—	402	402	118	274
Commercial and industrial loans	16,887	11,461	4,363	15,824	2,425	11,723
Consumer loans	303	—	300	300	3	165
State and other political subdivision loans	—	—	—	—	—	—
Other loans	756	95	479	574	111	543
Total	\$61,150	\$ 19,821	\$ 29,413	\$49,234	\$ 5,544	\$ 52,273

100

Edgar Filing: TRUSTMARK CORP - Form 10-K

	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 collectibility 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.

A formal TDR may include, but is not necessarily limited to, one or a combination of the following situations:

- Trustmark accepts a third-party receivable or other asset(s) of the borrower, in lieu of the receivable from the borrower.
- Trustmark accepts an equity interest in the borrower in lieu of the receivable.
- Trustmark accepts modification of the terms of the debt including but not limited to:
 - o Reduction of (absolute or contingent) the stated interest rate to below the current market rate.
 - o Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
 - o Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the note or other agreement.
 - o Reduction (absolute or contingent) of accrued interest.

Troubled debt restructurings are addressed in Trustmark's loan policy, and in accordance with that policy, any modifications or concessions that may result in a TDR are subject to a special approval process which allows for control, identification, and monitoring of these arrangements. Prior to granting a concession, a revised borrowing arrangement is proposed which is structured so as to improve collectability of the loan in accordance with a reasonable repayment schedule with any loss promptly identified. It is supported by a thorough evaluation of the borrower's financial condition and prospects for repayment under those revised terms. Other TDRs arising from renewals or extensions of existing debt are routinely identified through the processes utilized in the Problem Loan Committees and in the Credit Quality Review Committee. All TDRs are subsequently reported to the Director Credit Policy Committee on a quarterly basis and are disclosed in Trustmark's consolidated financial statements in accordance with GAAP and regulatory reporting guidance.

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 December 31, 2016 and 2015, Trustmark held \$269 thousand and \$1.0 million, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFI classified as TDRs. Consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings totaled \$101 thousand at December 31, 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.

Edgar Filing: TRUSTMARK CORP - Form 10-K

At December 31, 2016, 2015 and 2014, LHFI classified as TDRs totaled \$14.5 million, \$9.7 million and \$11.3 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time which totaled \$9.8 million, \$5.9 million and \$7.4 million, respectively. The remaining TDRs at December 31, 2016, 2015 and 2014 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 \$2.2 million at December 31, 2016, \$1.8 million at December 31, 2015 and \$1.7 million at December 31, 2014. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. Specific charge-offs related to TDRs totaled \$1.0 million, \$806 thousand and \$75 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

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):

	Year Ended December 31, 2016		
	Pre-Modification		Post-Modification
	Outstanding		Outstanding
	Number	Investment	Investment
Construction, land development and other land loans	1	\$ 14	\$ 14
Loans secured by 1-4 family residential properties	18	1,386	1,391
Loans secured by nonfarm, nonresidential properties	2	717	717
Commercial and industrial	5	10,043	9,982
Consumer loans	1	2	2
Total	27	\$ 12,162	\$ 12,106

	Year Ended December 31, 2015		
	Pre-Modification		Post-Modification
	Outstanding		Outstanding
	Number	Investment	Investment
Loans secured by 1-4 family residential properties	13	\$ 688	\$ 688
Loans secured by nonfarm, nonresidential properties	5	3,613	3,613
Total	18	\$ 4,301	\$ 4,301

Troubled Debt Restructurings	Year Ended December 31, 2014	
	Pre-Modification	Post-Modification
	Number	Outstanding
	of	Contracts

Edgar Filing: TRUSTMARK CORP - Form 10-K

		Recorded		Recorded
		Investment		Investment
Loans secured by 1-4 family residential properties	17	\$ 1,248		\$ 1,234

	Years Ended December 31,					
	2016		2015		2014	
	Number		Number		Number	
	of Recorded		of Recorded		of Recorded	
TDRs that Subsequently Defaulted	Contracts	Investment	Contracts	Investment	Contracts	Investment
Loans secured by 1-4 family residential properties	1	\$ —	5	\$ 260	1	\$ 103
Commercial and industrial	2	2,154	—	—	—	—
Total	3	\$ 2,154	5	\$ 260	1	\$ 103

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.

Edgar Filing: TRUSTMARK CORP - Form 10-K

The following tables detail LHFIs classified as TDRs by loan type at December 31, 2016, 2015 and 2014 (\$ in thousands):

	December 31, 2016		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$—	\$ 405	\$405
Secured by 1-4 family residential properties	—	2,873	2,873
Secured by nonfarm, nonresidential properties	—	881	881
Commercial and industrial loans	53	10,266	10,319
Consumer loans	—	2	2
Total TDRs	\$53	\$ 14,427	\$14,480

	December 31, 2015		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$—	\$ 869	\$869
Secured by 1-4 family residential properties	1,426	2,424	3,850
Secured by nonfarm, nonresidential properties	809	3,662	4,471
Commercial and industrial loans	—	463	463
Total TDRs	\$2,235	\$ 7,418	\$9,653

	December 31, 2014		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land loans	\$—	\$ 3,665	\$3,665
Secured by 1-4 family residential properties	1,385	3,733	5,118
Secured by nonfarm, nonresidential properties	—	1,854	1,854
Other real estate secured	—	149	149
Commercial and industrial loans	—	509	509
Total TDRs	\$1,385	\$ 9,910	\$11,295

Credit Quality Indicators

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

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

-

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

Underwriting – evaluates whether credits are adequately analyzed, appropriately structured and properly approved within loan policy requirements. A properly approved credit is approved by adequate authority in a timely manner with all conditions of approval fulfilled. Total policy exceptions measure the level of underwriting and other policy exceptions within a loan portfolio.

103

• **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, commercial nonaccrual LHFIs of \$500 thousand or more 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 with 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

104

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

	December 31, 2016				Subtotal
	Commercial LHFI				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	
Loans secured by real estate:					
Construction, land development and other land	\$752,318	\$ 9,567	\$ 8,086	\$ 465	\$770,436
Secured by 1-4 family residential properties	124,615	170	6,162	129	131,076

Edgar Filing: TRUSTMARK CORP - Form 10-K

Secured by nonfarm, nonresidential properties	1,989,554	4,394	38,913	584	2,033,445
Other real estate secured	315,829	762	890	—	317,481
Commercial and industrial loans	1,386,155	7,095	134,199	985	1,528,434
Consumer loans	—	—	—	—	—
State and other political subdivision loans	899,935	6,450	11,130	—	917,515
Other loans	382,890	—	2,685	350	385,925
Total	\$5,851,296	\$ 28,438	\$ 202,065	\$ 2,513	\$6,084,312

105

Edgar Filing: TRUSTMARK CORP - Form 10-K

	Consumer LHFI				Subtotal	Total LHFI
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual		
Loans secured by real estate:						
Construction, land development and other land	\$60,701	\$188	\$54	\$58	\$61,001	\$831,437
Secured by 1-4 family residential properties	1,503,096	7,377	1,436	17,058	1,528,967	1,660,043
Secured by nonfarm, nonresidential properties	731	—	—	—	731	2,034,176
Other real estate secured	667	—	—	—	667	318,148
Commercial and industrial loans	—	—	—	—	—	1,528,434
Consumer loans	168,031	1,891	341	299	170,562	170,562
State and other political subdivision loans	—	—	—	—	—	917,515
Other loans	4,940	33	—	—	4,973	390,898
Total	\$1,738,166	\$9,489	\$1,831	\$17,415	\$1,766,901	\$7,851,213

	December 31, 2015 Commercial LHFI				Subtotal
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	
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				Subtotal	Total LHFI
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual		
Loans secured by real estate:						
Construction, land development and other land	\$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
	753	—	—	—	753	1,736,476

Secured by nonfarm, nonresidential
properties

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

106

Edgar Filing: TRUSTMARK CORP - Form 10-K

Past Due LHF

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

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

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

	December 31, 2015						
	Past Due			Total	Nonaccrual	Current	Total LHF
	30-59 Days	60-89 Days	90 Days or More (1)				
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
	65	—	—	65	—	734,550	734,615

State and other political subdivision
loans

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 LHFS

LHFS past due 90 days or more totaled \$28.3 million and \$21.8 million at December 31, 2016 and 2015, respectively.

During 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 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

107

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.

During 2015, the LEP, a component of the quantitative portion of the allowance for loan loss methodology for commercial LHFI, was revised to reflect a 1.5 year period rather than a one year period. An additional provision of approximately \$2.3 million was recorded in 2015 as result of this revision to the quantitative portion of the allowance for loan loss methodology for commercial LHFI. The LEP refers to the period of time between the events that trigger a loss and a charge-off of that loss. Losses are usually not immediately known, and determining the loss event can be challenging. It takes time for the borrower and extent of loss to be identified and determined. Trustmark may not be aware that the loss trigger has occurred until the borrower exhibits the inability to pay or other evidence of credit deterioration. Trustmark estimates the loss event to have occurred within a nine month period prior to the event of default. The charge-off of the loss occurs within a ten month period after the event of default, resulting in a 1.5 year LEP.

During 2015, Trustmark also revised the quantitative portion of the allowance for loan loss methodology for commercial LHFI to incorporate third-party default data. The default data is used in conjunction with each market/commercial loan pool's loss rate and the commercial loan LEP in calculating a total quantitative loss factor for each risk rating within each market and pool. The quantitative reserves are a result of the total quantitative loss factor multiplied by the outstanding balances within each loan group and risk rate. An additional provision of approximately \$1.3 million was recorded in 2015 as a result of this revision to the quantitative portion of the allowance for loan loss methodology for commercial LHFI.

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.

108

During 2015, Trustmark eliminated caps and floors from the criticized risk grades in the qualitative portion and adjusted the Florida market region's distribution factors in the qualitative and quantitative portions of the allowance for loan loss methodology for commercial LHFI. The caps and floors for criticized risk ratings were eliminated in order to allow the risk associated with those credits to be reflected without constraint of pre-existing limits (caps or floors) on the risk ratings. When the current allowance for loan loss methodology was originally established, the vast majority of the reserve for the Florida market region's assets was covered by the quantitative features of the allowance for loan loss methodology due to the amount of gross charge-offs at that time and captured the vast majority of the embedded risk in the portfolio. The distribution for the Florida market region was adjusted to be the same as Trustmark's other key market regions since the credit metrics in the Florida market region now more closely resemble Trustmark as a whole. The elimination of the caps and floors for criticized risk ratings in the qualitative portion of the allowance for loan loss methodology for commercial LHFI resulted in a provision recapture of \$1.8 million in 2015. The change in the Florida market region distribution resulted in an additional provision expense of \$2.1 million related to the qualitative portion and an additional provision expense of \$785 thousand related to the quantitative portion of the allowance for loan loss methodology for commercial LHFI in 2015. Combined, these revisions to the allowance for loan loss methodology for commercial LHFI resulted in an additional provision of approximately \$1.1 million recorded during 2015.

In addition, Trustmark revised the qualitative portion of the commercial LHFI allowance for loan loss methodology to incorporate the use of maximum observed gross historical losses as a way to calculate a maximum qualitative reserve limit. The maximum observed gross historical losses for each market were observed for a three-year period reflecting the last economic downturn (i.e., 2008-2010). The aggregate of these losses as a percentage of the three-year average commercial LHFI balance results in an entity wide maximum observed gross historical loss rate for commercial LHFI. Once the quantitative component of the allowance for loan loss methodology is calculated, the quantitative reserve percentage is deducted from the maximum observed gross historical loss rate, resulting in the maximum possible qualitative reserve limit. The overall Qualitative Risk Factor (QRF) percentage is calculated by weighting each market's QRF and applied as a percentage to the maximum qualitative reserve limit. The result is the amount of qualitative adjustment to be distributed to each market. The distribution of qualitative reserves incorporates the nine separate commercial loan groups that are ranked in ascending order of risk by their respective weighted-average risk rates. The distribution of the qualitative adjustment among the risk rates was derived by an analysis that determines the probability of future credit deterioration. An additional provision of approximately \$4.4 million was recorded in 2015 as a result of these revisions.

During 2015, Trustmark also revised the qualitative portion of the allowance for loan loss methodology for commercial LHFI regarding the loan facility risk component. Loan facility risk embodies the nature, frequency and duration of the repayment structure as it pertains to the actual source of loan repayment. The underlying loan structure and nature of the credit either is risk neutral for traditional structures or adds risk to the credit for any variance that represents additional credit risk from the traditional structures. If the facility structure adds additional credit risk, qualitative reserves are added to individual loans based on their respective commercial loan pools. Factors considered in assigning facility risk include whether the principal is amortizing or not amortizing, revolving or not revolving, the payment frequency and the duration of the payment structure. In order to estimate the facility reserve for amortizing and interest only structures, loan level detail is used to estimate the incremental payment amount at risk, which is then assigned a reserve factor based upon probability of default, loss given default and the degree of deviation from the traditional structures. A provision recapture of approximately \$2.1 million was recorded in 2015 as a result of this revision to the qualitative portion of the allowance for loan loss methodology for commercial LHFI.

During 2014, Trustmark revised the qualitative portion of the allowance for loan loss methodology for commercial LHFI to incorporate an additional reserve component for commercial nonaccrual loans under \$500 thousand. A LHFI is considered impaired when, based on current information and events, it is probable that Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. A formal impairment analysis is performed on all commercial nonaccrual LHFI with an outstanding balance of \$500 thousand or more, and based upon this analysis LHFI are written down to net realizable value. The

implementation of this commercial qualitative factor will allow Trustmark to address additional credit risk and loss potential due to inadequate source of repayment and collateral for commercial nonaccrual LHFI below the \$500 thousand threshold for a formal analysis. For such loans, it is currently unlikely that full repayment of both principal and interest will be realized. An additional provision of approximately \$822 thousand was recorded in 2014 as result of this revision to the qualitative portion of the allowance for loan loss methodology for commercial LHFI.

Trustmark made no revisions to the allowance for loan loss methodology for commercial LHFI during 2016.

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

109

◆ Credit Cards

◆ Overdrafts

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

◆ Economic indicators

◆ Performance trends

◆ Management experience

◆ Credit concentrations

◆ Loan policy exceptions

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

During 2015, Trustmark revised the qualitative portion of the allowance for loan loss methodology for consumer LHFI by recalibrating the loss expectation component to be more representative of current conditions as well as recalculating the expected loss potential component, which reflects the consumer 12-quarter rolling average of net charge-offs, for each of the respective consumer loan groups. An additional provision of \$2.2 million was recorded in 2015 as a result of these revisions to the qualitative portion of the allowance for loan loss methodology for consumer LHFI.

In addition, Trustmark revised the quantitative portion of the allowance for loan loss methodology for the consumer mortgage portfolio. When the current allowance for loan loss methodology was originally established, the Florida market mortgages and non-Florida mortgages were treated separately due to the vast difference in loss experience. Since the credit metrics in the Florida market region now more closely resemble Trustmark as a whole, the quantitative portion of the loan loss methodology was revised to no longer segregate the mortgage portfolio into Florida and non-Florida portions. A provision recapture of approximately \$455 thousand was recorded in 2015 as a result of this revision to the quantitative portion of the allowance for loan loss methodology for consumer LHFI.

During 2015, Trustmark also revised the qualitative portion of the consumer LHFI allowance for loan loss methodology to incorporate the use of maximum observed gross historical losses as a way to calculate a maximum qualitative reserve limit. The maximum observed gross historical losses for each consumer loan portfolio were observed for a three-year period reflecting the last economic downturn (i.e., 2008-2010). The aggregate of these losses as a percentage of the respective pool's loan balance results in a maximum observed gross historical loss rate. Once the quantitative component of the allowance for loan loss methodology is calculated, the quantitative reserve is deducted from the maximum observed gross historical loss rate, resulting in the maximum possible qualitative reserve limit. The QRF percentage is calculated and applied as a percentage to the maximum qualitative reserve limit. The result is the amount of qualitative adjustment to be distributed to each consumer loan pool, with the exception of overdrafts due to their specific nature. An additional provision of approximately \$750 thousand was recorded in 2015 as a result of this revision to the qualitative portion of the allowance for loan loss methodology for consumer LHFI.

During 2014, Trustmark revised the qualitative portion of the allowance for loan loss methodology for consumer LHFI to incorporate the use of consumer credit bureau scores developed and provided by an independent third party. The credit bureau scores reflect the customer's historical willingness and ability to service their debt. These credit bureau scores are monitored on an ongoing basis and represent a consumer's credit payment history with all of

their creditors including their repayment performance with Trustmark. The implementation of this consumer qualitative factor will allow Trustmark to better monitor shifts in risk that are represented in the retail portfolio and ensure that it is reflective in the allowance for loan loss calculation. An additional provision of approximately \$1.4 million was recorded in 2014 as a result of this revision to the qualitative portion of the allowance for loan loss methodology for consumer LHFI.

Trustmark made no revisions to the allowance for loan loss methodology for consumer LHFI during 2016.

110

Edgar Filing: TRUSTMARK CORP - Form 10-K

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):

	Years Ended December31,		
	2016	2015	2014
Balance at beginning of period	\$67,619	\$69,616	\$66,448
Loans charged-off	(18,930)	(22,469)	(13,226)
Recoveries	11,619	12,097	15,183
Net (charge-offs) recoveries	(7,311)	(10,372)	1,957
Provision for loan losses, LHFI	10,957	8,375	1,211
Balance at end of period	\$71,265	\$67,619	\$69,616

The following tables detail the balance in the allowance for loan losses, LHFI by loan type at December 31, 2016 and 2015, respectively (\$ in thousands):

	2016			Provision for Loan Losses	Balance December 31,
	Balance January 1,	Charge-offs	Recoveries		
Loans secured by real estate:					
Construction, land development and other land	\$11,587	\$ (311)	\$ 1,380	\$ (3,571)	\$ 9,085
Secured by 1-4 family residential properties	10,678	(1,319)	1,122	(134)	10,347
Secured by nonfarm, nonresidential properties	21,563	(3,067)	976	1,495	20,967
Other real estate secured	2,467	(27)	7	(184)	2,263
Commercial and industrial loans	15,815	(6,602)	732	12,066	22,011
Consumer loans	2,879	(1,864)	4,007	(1,781)	3,241
State and other political subdivision loans	809	—	—	50	859
Other loans	1,821	(5,740)	3,395	3,016	2,492
Total allowance for loan losses, LHFI	\$67,619	\$ (18,930)	\$ 11,619	\$ 10,957	\$ 71,265

Disaggregated by Impairment
Method

Edgar Filing: TRUSTMARK CORP - Form 10-K

	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$616	\$ 8,469	\$9,085
Secured by 1-4 family residential properties	1,420	8,927	10,347
Secured by nonfarm, nonresidential properties	851	20,116	20,967
Other real estate secured	118	2,145	2,263
Commercial and industrial loans	2,425	19,586	22,011
Consumer loans	3	3,238	3,241
State and other political subdivision loans	—	859	859
Other loans	111	2,381	2,492
Total allowance for loan losses, LHFI	\$5,544	\$ 65,721	\$71,265

Edgar Filing: TRUSTMARK CORP - Form 10-K

	2015			Provision	Balance
	Balance			for	December
	January	Charge-offs	Recoveries	Loan	31,
	1,			Losses	
Loans secured by real estate:					
Construction, land development and other land	\$ 13,073	\$ (2,435)	\$ 1,773	\$ (824)	\$ 11,587
Secured by 1-4 family residential properties	9,677	(2,473)	920	2,554	10,678
Secured by nonfarm, nonresidential properties	18,523	(1,439)	605	3,874	21,563
Other real estate secured	2,141	(24)	136	214	2,467
Commercial and industrial loans	19,917	(8,081)	1,761	2,218	15,815
Consumer loans	2,149	(2,171)	3,289	(388)	2,879
State and other political subdivision loans	1,314	—	—	(505)	809
Other loans	2,822	(5,846)	3,613	1,232	1,821
Total allowance for loan losses, LHFI	\$ 69,616	\$ (22,469)	\$ 12,097	\$ 8,375	\$ 67,619

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	\$ 909	\$ 10,678	\$ 11,587
Secured by 1-4 family residential properties	1,230	9,448	10,678
Secured by nonfarm, nonresidential properties	3,402	18,161	21,563
Other real estate secured	15	2,452	2,467
Commercial and industrial loans	3,304	12,511	15,815
Consumer loans	—	2,879	2,879
State and other political subdivision loans	—	809	809
Other loans	128	1,693	1,821
Total allowance for loan losses, LHFI	\$ 8,988	\$ 58,631	\$ 67,619

Note 6 – Acquired Loans

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

	December 31, 2016		December 31, 2015	
	Noncovered	Covered	Noncovered	Covered
Loans secured by real estate:				
Construction, land development and other land	\$ 20,850	\$ —	\$ 41,623	\$ 1,021
Secured by 1-4 family residential properties	65,926	3,614	86,950	10,058
Secured by nonfarm, nonresidential properties	103,820	—	135,626	4,638
Other real estate secured	19,010	—	23,860	1,286
Commercial and industrial loans	36,896	—	55,075	624
Consumer loans	3,365	—	5,641	—
Other loans	18,766	—	23,936	73

Edgar Filing: TRUSTMARK CORP - Form 10-K

Acquired loans	268,633	3,614	372,711	17,700
Less allowance for loan losses, acquired loans	11,312	85	11,259	733
Net acquired loans	\$257,321	\$ 3,529	\$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 property expired on June 30, 2016. Trustmark's loss share agreement with the FDIC covering the acquired covered loans secured by 1-4 family residential property will expire in 2021. Effective July 1, 2016, all acquired covered loans, excluding the acquired covered loans secured by 1-4 family residential property, were reclassified to acquired noncovered loans.

Edgar Filing: TRUSTMARK CORP - Form 10-K

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	17,475	40	930	—
Payments received, net	(107,013)	(24,490)	(4,509)	(463)
Other (2)	307	—	(441)	—
Less change in allowance for loan losses, acquired loans	(506)	453	1,102	(454)
Carrying value, net at December 31, 2016	\$214,786	\$ 42,535	\$3,321	\$ 208

- (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.
- (2) Includes miscellaneous timing adjustments as well as acquired loan terminations through foreclosure, charge-off and other terminations.
- (3) Acquired covered loans transferred to acquired noncovered loans as a result of the expiration of the related loss share agreement with the FDIC on June 30, 2016.

Under FASB ASC Topic 310-30, the accretible 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 accretible yield for the periods presented (\$ in thousands):

	Years Ended	
	December 31, 2016	2015
Accretible yield at beginning of period	\$(52,672)	\$(77,149)
Accretion to interest income	18,405	30,501
Disposals	6,488	10,013
Reclassification from nonaccretible difference (1)	(11,139)	(16,037)
Accretible yield at end of period	\$(38,918)	\$(52,672)

- (1) Reclassifications from nonaccretible 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 impaired loans for the periods presented (\$ in thousands):

	Noncovered	Covered	Total
Balance at January 1, 2016	\$ 11,259	\$ 733	\$11,992
Transfers (1)	215	(215)	—
Provision for loan losses, acquired loans	4,084	(327)	3,757
Loans charged-off	(6,534)	(82)	(6,616)
Recoveries	2,288	(24)	2,264
Net charge-offs	(4,246)	(106)	(4,352)
Balance at December 31, 2016	\$ 11,312	\$ 85	\$11,397

Edgar Filing: TRUSTMARK CORP - Form 10-K

	Noncovered	Covered	Total
Balance at January 1, 2015	\$ 10,541	\$ 1,518	\$12,059
Provision for loan losses, acquired loans	3,854	(429)	3,425
Loans charged-off	(6,722)	(478)	(7,200)
Recoveries	3,586	122	3,708
Net charge-offs	(3,136)	(356)	(3,492)
Balance at December 31, 2015	\$ 11,259	\$ 733	\$11,992

	Noncovered	Covered	Total
Balance at January 1, 2014	\$ 7,249	\$ 2,387	\$9,636
Provision for loan losses, acquired loans	7,149	(978)	6,171
Loans charged-off	(6,274)	127	(6,147)
Recoveries	2,417	(18)	2,399
Net (charge-offs) recoveries	(3,857)	109	(3,748)
Balance at December 31, 2014	\$ 10,541	\$ 1,518	\$12,059

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

As discussed in Note 5 - 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 December 31, 2016 and 2015 (\$ in thousands):

	December 31, 2016				Subtotal
	Pass - Categories 6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	
Noncovered Loans:					
Loans secured by real estate:					
Construction, land development and other land	\$12,148	\$ 99	\$ 6,469	\$ 322	\$19,038
Secured by 1-4 family residential properties	14,400	50	4,010	69	18,529
Secured by nonfarm, nonresidential properties	83,271	435	19,553	511	103,770
Other real estate secured	15,344	—	2,673	565	18,582
Commercial and industrial loans	22,024	18	13,494	1,354	36,890
Consumer loans	—	—	—	—	—
Other loans	12,954	—	5,649	161	18,764
Total noncovered loans	160,141	602	51,848	2,982	215,573

Covered Loans: (1)

Loans secured by real estate:

Construction, land development and other

land	—	—	—	—	—
Secured by 1-4 family residential properties	152	11	56	—	219
Secured by nonfarm, nonresidential properties	—	—	—	—	—
Other real estate secured	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—
Other loans	—	—	—	—	—
Total covered loans	152	11	56	—	219
Total acquired loans	\$160,293	\$ 613	\$ 51,904	\$ 2,982	\$215,792

114

Edgar Filing: TRUSTMARK CORP - Form 10-K

	Consumer Loans				Subtotal	Total Acquired Loans
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual (2)		
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land	\$1,801	\$ —	\$ 11	\$ —	\$1,812	\$ 20,850
Secured by 1-4 family residential properties	45,533	1,227	613	24	47,397	65,926
Secured by nonfarm, nonresidential properties	50	—	—	—	50	103,820
Other real estate secured	428	—	—	—	428	19,010
Commercial and industrial loans	6	—	—	—	6	36,896
Consumer loans	3,250	51	64	—	3,365	3,365
Other loans	2	—	—	—	2	18,766
Total noncovered loans	51,070	1,278	688	24	53,060	268,633
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land	—	—	—	—	—	—
Secured by 1-4 family residential properties	3,162	137	96	—	3,395	3,614
Secured by nonfarm, nonresidential properties	—	—	—	—	—	—
Other real estate secured	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total covered loans	3,162	137	96	—	3,395	3,614
Total acquired loans	\$54,232	\$ 1,415	\$ 784	\$ 24	\$56,455	\$ 272,247

(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				Subtotal
	Commercial Loans	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	
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

Edgar Filing: TRUSTMARK CORP - Form 10-K

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

115

Edgar Filing: TRUSTMARK CORP - Form 10-K

	Consumer Loans				Subtotal	Total Acquired Loans
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual (2)		
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				