TRUSTMARK CORP
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 000-03683

Trustmark Corporation

(Exact name of registrant as specified in its charter)

Mississippi	64-0471500
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(601) 208-5111

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

As of July 31, 2016, there were 67,624,853 shares outstanding of the registrant's common stock (no par value).

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “pote “could,” “future” or the negative of those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements include, but are not limited to, statements relating to anticipated future operating and financial performance measures, including net interest margin, credit quality, business initiatives, growth opportunities and growth rates, among other things, and encompass any estimate, prediction, expectation, projection, opinion, anticipation, outlook or statement of belief included therein as well as the management assumptions underlying these forward-looking statements. You should be aware that the occurrence of the events described under the caption “Risk Factors” in Trustmark’s filings with the Securities and Exchange Commission could have an adverse effect on our business, results of operations and financial condition. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary significantly from those anticipated, estimated, projected or expected.

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Trustmark Corporation and Subsidiaries

Consolidated Balance Sheets

($ in thousands)

	(Unaudited) June 30, 2016	December 31, 2015
Assets		
Cash and due from banks (noninterest-bearing)	$322,049	$277,751
Federal funds sold and securities purchased under reverse repurchase agreements	3,198	250
Securities available for sale (at fair value)	2,388,306	2,345,422
Securities held to maturity (fair value: $1,210,044-2016; $1,195,367-2015)	1,173,204	1,187,818
Loans held for sale (LHFS)	213,546	160,189
Loans held for investment (LHFI)	7,405,181	7,091,385
Less allowance for loan losses, LHFI	71,796	67,619
Net LHFI	7,333,385	7,023,766
Acquired loans:		
Noncovered loans	325,196	372,711
Covered loans	13,839	17,700
Less allowance for loan losses, acquired loans	12,480	11,992
Net acquired loans	326,555	378,419
Net LHFI and acquired loans	7,659,940	7,402,185
Premises and equipment, net	192,732	195,656
Mortgage servicing rights	62,814	74,007
Goodwill	366,156	366,156
Identifiable intangible assets	24,058	27,546
Other real estate, excluding covered other real estate	69,502	77,177
Covered other real estate	388	1,651
FDIC indemnification asset	—	738
Other assets	554,456	562,350
Total Assets	$13,030,349	$12,678,896
Liabilities		
Deposits:		
Noninterest-bearing	$2,921,016	$2,998,694
Interest-bearing	6,610,508	6,589,536
Total deposits	9,531,524	9,588,230
Federal funds purchased and securities sold under repurchase agreements	606,336	441,042
Short-term borrowings	360,434	412,617
Long-term FHLB advances	751,106	501,155
Subordinated notes	49,985	49,969

Junior subordinated debt securities	61,856	61,856
Other liabilities	145,641	150,970
Total Liabilities	11,506,882	11,205,839
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,623,601 shares - 2016; 67,559,128 shares - 2015	14,090	14,076
Capital surplus	364,516	361,467
Retained earnings	1,157,025	1,142,908
Accumulated other comprehensive loss, net of tax	(12,164)	(45,394)
Total Shareholders' Equity	1,523,467	1,473,057
Total Liabilities and Shareholders' Equity	$13,030,349	$12,678,896

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Income

($ in thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on LHFS & LHFI	$73,745	$68,167	$146,031	$134,378
Interest and fees on acquired loans	8,051	12,557	15,073	27,635
Interest on securities:				
Taxable	19,402	19,731	39,488	39,317
Tax exempt	929	1,097	1,902	2,260
Interest on federal funds sold and securities purchased under reverse repurchase agreements	4	2	5	2
Other interest income	200	392	430	785
Total Interest Income	102,331	101,946	202,929	204,377
Interest Expense				
Interest on deposits	3,122	3,204	6,160	6,451
Interest on federal funds purchased and securities sold under repurchase agreements	404	179	835	322
Other interest expense	2,428	1,614	4,817	3,263
Total Interest Expense	5,954	4,997	11,812	10,036
Net Interest Income	96,377	96,949	191,117	194,341
Provision for loan losses, LHFI	2,596	1,033	4,839	2,818
Provision for loan losses, acquired loans	607	825	1,916	1,172
Net Interest Income After Provision for Loan Losses	93,174	95,091	184,362	190,351
Noninterest Income				
Service charges on deposit accounts	11,051	11,920	22,132	23,005
Bank card and other fees	7,436	7,416	14,354	14,178
Mortgage banking, net	6,721	9,481	15,420	18,446
Insurance commissions	9,638	9,401	18,231	18,017
Wealth management	8,009	7,758	15,416	15,748
Other, net	1,372	(433)	2,260	(1,488)
Security losses, net	—	—	(310)	—
Total Noninterest Income	44,227	45,543	87,503	87,906
Noninterest Expense				
Salaries and employee benefits	67,018	57,393	124,219	114,562
Services and fees	14,522	15,005	28,997	29,126
Net occupancy - premises	5,928	6,243	12,116	12,434
Equipment expense	5,896	5,903	11,990	11,877

ORE/Foreclosure expense	1,193	921	1,374	2,036
FDIC assessment expense	2,959	2,615	5,770	5,555
Other expense	12,663	12,186	24,657	23,892
Total Noninterest Expense	110,179	100,266	209,123	199,482
Income Before Income Taxes	27,222	40,368	62,742	78,775
Income taxes	5,719	9,766	14,236	19,025
Net Income	$21,503	$30,602	$48,506	$59,750
Earnings Per Share				
Basic	$0.32	$0.45	$0.72	$0.88
Diluted	$0.32	$0.45	$0.72	$0.88
Dividends Per Share	$0.23	$0.23	$0.46	$0.46

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income per consolidated statements of income	$21,503	$30,602	$48,506	$59,750
Other comprehensive income, net of tax:				
Unrealized gains (losses) on available for sale securities and transferred securities:				
Unrealized holding gains (losses) arising during the period	5,787	(13,951)	27,612	(2,565)
Less: adjustment for net losses realized in net income	—	—	191	—
Change in net unrealized holding loss on securities transferred to held to maturity	1,836	1,021	3,518	1,895
Pension and other postretirement benefit plans:				
Net change in prior service costs	39	38	77	77
Recognized net loss due to lump sum settlement	1,388	296	1,649	553
Change in net actuarial loss	540	751	1,085	1,505
Derivatives:				
Change in the accumulated loss on effective cash flow hedge derivatives	(277)	174	(1,097)	(434)
Less: adjustment for loss realized in net income	96	130	195	260
Other comprehensive income (loss), net of tax	9,409	(11,541)	33,230	1,291
Comprehensive income	$30,912	$19,061	$81,736	$61,041

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

($ in thousands)

(Unaudited)

	2016	2015
Balance, January 1,	$1,473,057	$1,419,940
Net income per consolidated statements of income	48,506	59,750
Other comprehensive income, net of tax	33,230	1,291
Common stock dividends paid	(31,301)	(31,294)
Common stock issued-net, long-term incentive plan	(949)	(842)
Repurchase and retirement of common stock	(750)	—
Excess tax expense from stock-based compensation arrangements	(126)	(217)
Compensation expense, long-term incentive plan	1,800	1,781
Balance, June 30,	$1,523,467	$1,450,409

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income per consolidated statements of income	$48,506	$59,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, net	6,755	3,990
Depreciation and amortization	17,679	18,529
Net amortization of securities	4,273	4,355
Securities losses, net	310	—
Gains on sales of loans, net	(8,071)	(8,828)
Deferred income tax (benefit) provision	(2,100)	9,700
Proceeds from sales of loans held for sale	598,752	588,771
Purchases and originations of loans held for sale	(646,487)	(617,089)
Originations of mortgage servicing rights	(7,211)	(8,157)
Increase in bank-owned life insurance	(2,429)	(2,370)
Net (increase) decrease in other assets	(8,963)	10,464
Net decrease in other liabilities	(857)	(2,427)
Other operating activities, net	16,110	(1,015)
Net cash provided by operating activities	16,267	55,673
Investing Activities		
Proceeds from calls and maturities of securities held to maturity	141,881	62,454
Proceeds from calls and maturities of securities available for sale	213,709	218,337
Proceeds from sales of securities available for sale	24,693	—
Purchases of securities held to maturity	(121,931)	(48,946)
Purchases of securities available for sale	(240,482)	(328,576)
Net proceeds from bank-owned life insurance	604	655
Net (increase) decrease in federal funds sold and securities purchased under reverse repurchase agreements	(2,948)	1,885
Net (increase) decrease in member bank stock	(6)	3,815
Net (increase) decrease in loans	(272,617)	65,186
Purchases of premises and equipment	(5,135)	(6,062)
Proceeds from sales of premises and equipment	155	2,895
Proceeds from sales of other real estate	17,101	22,453
Purchases of software	(3,576)	(4,490)
Investments in tax credit and other partnerships	(46)	(116)
Net cash used in investing activities	(248,598)	(10,510)

Financing Activities		
Net (decrease) increase in deposits	(56,706)	93,816
Net increase in federal funds purchased and securities sold under repurchase agreements	165,294	33,919
Net decrease in short-term borrowings	(49,734)	(201,421)
Payments on long-term FHLB advances	(48)	(47)
Proceeds from long-term FHLB advances	250,000	—
Common stock dividends	(31,301)	(31,294)
Common stock issued-net, long-term incentive plan	—	(842)
Repurchase and retirement of common stock	(750)	—
Excess tax expense from stock-based compensation arrangements	(126)	(217)
Net cash provided by (used in) financing activities	276,629	(106,086)
Increase (Decrease) in cash and cash equivalents	44,298	(60,923)
Cash and cash equivalents at beginning of period	277,751	315,973
Cash and cash equivalents at end of period	$322,049	$255,050

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

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

Trustmark Corporation (Trustmark) is a bank holding company headquartered in Jackson, Mississippi. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions to corporate institutions and individual customers through 194 offices in Alabama, Florida, Mississippi, Tennessee and Texas.

The consolidated financial statements include the accounts of Trustmark and all other entities in which Trustmark has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2015 Annual Report on Form 10-K.

Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting periods and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2016 actual conditions could vary from those anticipated, which could affect Trustmark's financial condition and results of operations. Actual results could differ from those estimates.

Note 2 – Securities Available for Sale and Held to Maturity

The following tables are a summary of the amortized cost and estimated fair value of securities available for sale and held to maturity at June 30, 2016 and December 31, 2015 ($ in thousands):

	Securities Available for Sale				Securities Held to Maturity			
June 30, 2016	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	$61,262	$501	$(404)	$61,359	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	257	29	—	286	31,142	1,774	—	32,916
Obligations of states and political subdivisions	125,268	4,020	(3)	129,285	53,473	3,010	(1)	56,482
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	28,633	670	(21)	29,282	16,415	650	—	17,065
Issued by FNMA and FHLMC	420,789	7,753	—	428,542	42,267	847	—	43,114
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,444,582	30,448	(673)	1,474,357	824,175	22,830	(1)	847,004

Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	256,631	8,621	(57)	265,195	205,732	7,874	(143)	213,463
Total	$2,337,422	$52,042	$(1,158)	$2,388,306	$1,173,204	$36,985	$(145)	$1,210,044
December 31, 2015								
U.S. Government agency obligations								
Issued by U.S. Government agencies	$68,314	$555	$(734)	$68,135	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	258	23	—	281	101,782	3,282	—	105,064
Obligations of states and political subdivisions	134,719	3,922	(32)	138,609	55,892	2,918	—	58,810
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	25,602	399	(189)	25,812	17,363	342	(49)	17,656
Issued by FNMA and FHLMC	222,899	2,956	(313)	225,542	10,368	311	—	10,679
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,584,338	9,541	(11,019)	1,582,860	820,012	4,951	(4,742)	820,221
Commercial mortgage-backed securities	278,429	2,689	(1,892)	279,226	182,401	1,700	(1,164)	182,937

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

During 2013, Trustmark reclassified approximately $1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities totaled approximately $46.6 million ($28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. At June 30, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $28.3 million ($17.5 million, net of tax).

Temporarily Impaired Securities

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

	Less than 12 Months		12 Months or More		Total	
June 30, 2016	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Government agency obligations						
Issued by U.S. Government agencies	$13,093	$ (117)	$25,060	$ (287)	$38,153	$ (404)
Obligations of states and political subdivisions	1,277	(2)	973	(2)	2,250	(4)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	3,273	(12)	1,738	(9)	5,011	(21)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	56	—	118,346	(674)	118,402	(674)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	4,481	(57)	11,096	(143)	15,577	(200)
Total	$22,180	$ (188)	$157,213	$ (1,115)	$179,393	$ (1,303)
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 June 30, 2016. There were no other-than-temporary impairments for the three and six months ended June 30, 2016 and 2015.

Security Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Available for Sale	2016	2015	2016	2015
Proceeds from calls and sales of securities	$ —	$ —	$24,693	$ —
Gross realized gains	—	—	32	—
Gross realized (losses)	—	—	(342)	—

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

Securities Pledged

Securities with a carrying value of $2.033 billion and $2.157 billion at June 30, 2016 and December 31, 2015, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At both June 30, 2016 and December 31, 2015, none of these securities were pledged under the Federal Reserve Discount Window program to provide additional contingency funding capacity.

Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at June 30, 2016, by contractual maturity, are shown below ($ in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$30,086	$30,373	$6,000	$6,067
Due after one year through five years	106,107	110,221	40,461	42,006
Due after five years through ten years	3,127	3,221	38,154	41,325
Due after ten years	47,467	47,115	—	—
	186,787	190,930	84,615	89,398
Mortgage-backed securities	2,150,635	2,197,376	1,088,589	1,120,646
Total	$2,337,422	$2,388,306	$1,173,204	$1,210,044

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

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

	June 30, 2016	December 31, 2015
Loans secured by real estate:		
Construction, land development and other land	$718,438	$824,723
Secured by 1-4 family residential properties	1,620,013	1,649,501
Secured by nonfarm, nonresidential properties	1,900,784	1,736,476
Other real estate secured	323,734	211,228
Commercial and industrial loans	1,466,511	1,343,211
Consumer loans	166,436	169,135
State and other political subdivision loans	805,401	734,615
Other loans	403,864	422,496
LHFI	7,405,181	7,091,385
Less allowance for loan losses, LHFI	71,796	67,619
Net LHFI	$7,333,385	$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 June 30, 2016, Trustmark's geographic loan distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. Accordingly, the ultimate collectability of a substantial portion of these loans is susceptible to changes in market conditions in these areas.

Nonaccrual/Impaired LHFI

At June 30, 2016 and December 31, 2015, the carrying amounts of nonaccrual LHFI were $65.1 million and $55.3 million, respectively. Included in these amounts were $7.7 million and $7.4 million, respectively, of nonaccrual LHFI classified as troubled debt restructurings (TDRs). No material interest income was recognized in the income statement on nonaccrual LHFI for each of the periods ended June 30, 2016 and 2015.

Trustmark considers all nonaccrual LHFI to be impaired loans. All commercial nonaccrual LHFI (including those classified as TDRs) over $500 thousand are specifically evaluated for impairment (specifically evaluated impaired LHFI) using a fair value approach. The remaining nonaccrual LHFI, which primarily consist of consumer loans secured by 1-4 family residential property, are not specifically reviewed. Consumer loans secured by 1-4 family residential property are generally charged off or written down when the credit becomes severely delinquent and the balance exceeds the fair value of the property less costs to sell.

At June 30, 2016 and December 31, 2015, specifically evaluated impaired LHFI totaled $37.3 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 $1.5 million and $1.3 million for the first six months of 2016 and 2015, respectively. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded. At June 30, 2016 and December 31, 2015, reserves related to specifically evaluated impaired LHFI totaled $7.4 million and $7.0 million, respectively. Provision recapture on specifically evaluated impaired LHFI totaled $1.1 million for the first six months of 2016 compared to provision expense of $1.9 million for the first six months of 2015.

At June 30, 2016 and December 31, 2015, impaired LHFI, excluding the specifically evaluated impaired LHFI, totaled $27.9 million and $28.8 million, respectively. In addition, these impaired LHFI had allocated allowance for loan losses of $2.3 million and $2.0 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired LHFI for each of the periods ended June 30, 2016 and 2015.

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

	June 30, 2016		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total

Loans secured by real estate:			
Construction, land development and other land	$5,663	$712,775	$718,438
Secured by 1-4 family residential properties	22,298	1,597,715	1,620,013
Secured by nonfarm, nonresidential properties	16,037	1,884,747	1,900,784
Other real estate secured	1,836	321,898	323,734
Commercial and industrial loans	18,470	1,448,041	1,466,511
Consumer loans	70	166,366	166,436
State and other political subdivision loans	—	805,401	805,401
Other loans	754	403,110	403,864
Total	$65,128	$7,340,053	$7,405,181

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

	June 30, 2016					
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land	$9,087	$ 3,148	$ 2,515	$5,663	$ 533	$ 5,893
Secured by 1-4 family residential properties	27,590	4,340	17,958	22,298	543	22,688
Secured by nonfarm, nonresidential properties	17,719	2,542	13,495	16,037	4,485	16,919
Other real estate secured	1,862	—	1,836	1,836	360	990
Commercial and industrial loans	20,960	13,275	5,195	18,470	3,600	13,046
Consumer loans	74	—	70	70	1	50
State and other political subdivision loans	—	—	—	—	—	—
Other loans	899	—	754	754	180	633
Total	$78,191	$ 23,305	$ 41,823	$65,128	$ 9,702	$ 60,219

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

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

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

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310. Accordingly, Trustmark measures any loss on the restructuring in accordance with that guidance. A TDR in which Trustmark receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, is accounted for in accordance with FASB ASC Subtopic 310-40, "Troubled Debt Restructurings by Creditors." Thus, the loan is treated as if assets have been received in satisfaction of the loan and reported as a foreclosed asset. At June 30, 2016 and December 31, 2015, Trustmark held $392 thousand and $1.0 million, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFI classified as TDRs. There were no consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings at June 30, 2016 compared to $83 thousand at December 31, 2015.

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

At June 30, 2016 and 2015, LHFI classified as TDRs totaled $7.7 million and $12.1 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time which totaled $5.4 million and $8.3 million, respectively. The remaining TDRs at June 30, 2016 and 2015 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions.

For TDRs, Trustmark had a related loan loss allowance of $1.7 million and $1.9 million at June 30, 2016 and 2015, respectively. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. There were no specific charge-offs related to TDRs for the six months ended June 30, 2016 compared to $806 thousand for the six months ended 2015.

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

	Three Months Ended June 30,					
	2016			2015		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Construction, land development and other land loans	1	$ 14	$ 14	—	$ —	$ —
Loans secured by 1-4 family residential properties	6	669	669	2	82	82
Loans secured by nonfarm, nonresidential properties	—	—	—	4	3,512	3,512
Consumer loans	1	2	2	—	—	—
Total	8	$ 685	$ 685	6	$ 3,594	$ 3,594

	Six Months Ended June 30,					
	2016			2015		
		Pre-Modification	Post-Modification		Pre-Modification	Post-Modification
Troubled Debt Restructurings	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment
Construction, land development and other land loans	1	$ 14	$ 14	—	$ —	$ —
Loans secured by 1-4 family residential properties	8	740	740	8	460	460
Loans secured by nonfarm, nonresidential properties	—	—	—	4	3,512	3,512
Consumer loans	1	2	2	—	—	—
Total	10	$ 756	$ 756	12	$ 3,972	$ 3,972

	Six Months Ended June 30,			
	2016		2015	
TDRs that Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Loans secured by 1-4 family residential properties	1	$ 16	4	$ 245

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

The following tables detail LHFI classified as TDRs by loan type at June 30, 2016 and 2015 ($ in thousands):

	June 30, 2016		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 577	$577
Secured by 1-4 family residential properties	—	3,187	3,187
Secured by nonfarm, nonresidential properties	—	3,501	3,501

Other real estate secured	—	—	—
Commercial and industrial loans	—	437	437
Consumer loans	—	2	2
Total TDRs	$—	$ 7,704	$7,704

	June 30, 2015		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 1,664	$1,664
Secured by 1-4 family residential properties	1,635	2,795	4,430
Secured by nonfarm, nonresidential properties	828	4,584	5,412
Other real estate secured	—	62	62
Commercial and industrial loans	—	495	495
Total TDRs	$2,463	$ 9,600	$12,063

Credit Quality Indicators

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

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

- Credit File Completeness and Financial Statement Exceptions – evaluates the quality and condition of credit files in terms of content, completeness and organization and focuses on efforts to obtain and document sufficient information to determine the quality and status of credits. Also included is an evaluation of the systems/procedures used to insure compliance with policy.
- Underwriting – evaluates whether credits are adequately analyzed, appropriately structured and properly approved within loan policy requirements. A properly approved credit is approved by adequate authority in a timely manner with all conditions of approval fulfilled. Total policy exceptions measure the level of underwriting and other policy exceptions within a loan portfolio.
- Collateral Documentation – focuses on the adequacy of documentation to perfect Trustmark's collateral position and substantiate collateral value. Collateral exceptions measure the level of documentation exceptions within a loan portfolio. Collateral exceptions occur when certain collateral documentation is either not present, is not considered current or has expired.
- Compliance with Law – focuses on underwriting, documentation, approval and reporting in compliance with banking laws and regulations. Primary emphasis is directed to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and Regulation O requirements.

Commercial Credits

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

- Risk Rate (RR) 1 through RR 6 – Grades one through six represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risk measured by using a variety of credit risk criteria such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.
- Other Assets Especially Mentioned (Special Mention) - (RR 7) – a loan that has a potential weakness that if not corrected will lead to a more severe rating. This rating is for credits that are currently protected but potentially weak because of an adverse feature or condition that if not corrected will lead to a further downgrade.
- Substandard (RR 8) – a loan that has at least one identified weakness that is well defined. This rating is for credits where the primary sources of repayment are not viable at the time of evaluation or where either the capital or collateral is not adequate to support the loan and the secondary means of repayment do not provide a sufficient level of support to offset the identified weakness. Loss potential exists in the aggregate amount of substandard loans but does not necessarily exist in individual loans.

- Doubtful (RR 9) – a loan with an identified weakness that does not have a valid secondary source of repayment. Generally these credits have an impaired primary source of repayment and secondary sources are not sufficient to prevent a loss in the credit. The exact amount of the loss has not been determined at this time.
- Loss (RR 10) – a loan or a portion of a loan that is deemed to be uncollectible.

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

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

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

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

The expected loss distribution is spread across the various risk ratings by the perceived level of risk for loss. The nine grade scale described above ranges from a negligible risk of loss to an identified loss across its breadth. The loss distribution factors are graduated through the scale on a basis proportional to the degree of risk that appears manifest in each individual rating and assumes that migration through the loan grading system will occur.

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

In addition to the ongoing internal risk rate monitoring described above, Trustmark's Credit Quality Review Committee meets monthly and performs a review of all loans of $100 thousand or more that are either delinquent thirty days or more or on nonaccrual. This review includes recommendations regarding risk ratings, accrual status, charge-offs and appropriate servicing officer as well as evaluation of problem credits for determination of TDRs. Quarterly, the Credit Quality Review Committee reviews and modifies continuous action plans for all credits risk rated seven or worse for relationships of $100 thousand or more. In addition, the 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 June 30, 2016 and December 31, 2015 ($ in thousands):

	June 30, 2016				
	Commercial LHFI				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other land	$640,320	$ —	$ 12,768	$ 523	$653,611
Secured by 1-4 family residential properties	126,489	474	6,721	402	134,086
Secured by nonfarm, nonresidential properties	1,850,526	1,055	47,728	667	1,899,976
Other real estate secured	320,911	—	1,882	—	322,793
Commercial and industrial loans	1,403,933	365	61,475	723	1,466,496
Consumer loans	18	—	—	—	18
State and other political subdivision loans	787,373	6,450	11,578	—	805,401
Other loans	395,286	340	2,536	440	398,602
Total	$5,524,856	$ 8,684	$ 144,688	$ 2,755	$5,680,983

	Consumer LHFI					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total LHFI
Loans secured by real estate:						
Construction, land development and other land	$64,041	$301	$ —	$ 485	$64,827	$718,438
Secured by 1-4 family residential properties	1,457,757	8,052	1,276	18,842	1,485,927	1,620,013
Secured by nonfarm, nonresidential properties	808	—	—	—	808	1,900,784
Other real estate secured	941	—	—	—	941	323,734
Commercial and industrial loans	15	—	—	—	15	1,466,511

Consumer loans	164,430	1,779	140	69	166,418	166,436
State and other political subdivision loans	—	—	—	—	—	805,401
Other loans	5,262	—	—	—	5,262	403,864
Total	$1,693,254	$10,132	$ 1,416	$ 19,396	$1,724,198	$7,405,181

	December 31, 2015				
	Commercial LHFI				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other land	$746,227	$—	$ 15,637	$ 529	$762,393
Secured by 1-4 family residential properties	125,268	345	7,525	190	133,328
Secured by nonfarm, nonresidential properties	1,680,846	2,031	52,485	361	1,735,723
Other real estate secured	205,097	—	4,768	—	209,865
Commercial and industrial loans	1,295,760	9,473	37,284	694	1,343,211
Consumer loans	—	—	—	—	—
State and other political subdivision loans	713,616	12,478	8,521	—	734,615
Other loans	414,089	183	2,663	375	417,310
Total	$5,180,903	$24,510	$ 128,883	$ 2,149	$5,336,445

	Consumer LHFI					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total LHFI
Loans secured by real estate:						
Construction, land development and other land	$62,158	$146	$—	$ 26	$62,330	$824,723
Secured by 1-4 family residential properties	1,485,914	7,565	2,058	20,636	1,516,173	1,649,501
Secured by nonfarm, nonresidential properties	753	—	—	—	753	1,736,476
Other real estate secured	1,363	—	—	—	1,363	211,228
Commercial and industrial loans	—	—	—	—	—	1,343,211
Consumer loans	166,681	2,182	242	30	169,135	169,135
State and other political subdivision loans	—	—	—	—	—	734,615
Other loans	5,186	—	—	—	5,186	422,496
Total	$1,722,055	$9,893	$2,300	$ 20,692	$1,754,940	$7,091,385

Past Due LHFI

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

	June 30, 2016						
	Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)	Total	Nonaccrual	Current Loans	Total LHFI
Loans secured by real estate:							
Construction, land development and other land	$311	$—	$ —	$311	$ 5,663	$712,464	$718,438
Secured by 1-4 family residential properties	7,087	2,211	1,276	10,574	22,298	1,587,141	1,620,013
Secured by nonfarm, nonresidential properties	347	138	1,966	2,451	16,037	1,882,296	1,900,784
Other real estate secured	83	—	—	83	1,836	321,815	323,734

Commercial and industrial loans	1,760	67	—	1,827	18,470	1,446,214	1,466,511
Consumer loans	1,403	376	140	1,919	70	164,447	166,436
State and other political subdivision loans	85	—	—	85	—	805,316	805,401
Other loans	263	2	—	265	754	402,845	403,864
Total	$11,339	$2,794	$ 3,382	$17,515	$ 65,128	$7,322,538	$7,405,181

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

	December 31, 2015						
	Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)	Total	Nonaccrual	Current Loans	Total LHFI
Loans secured by real estate:							
Construction, land development and other land	$214	$—	$ —	$214	$ 6,123	$818,386	$824,723
Secured by 1-4 family residential properties	6,203	1,800	2,058	10,061	23,079	1,616,361	1,649,501
Secured by nonfarm, nonresidential properties	437	88	—	525	17,800	1,718,151	1,736,476
Other real estate secured	—	—	—	—	145	211,083	211,228
Commercial and industrial loans	921	45	—	966	7,622	1,334,623	1,343,211
Consumer loans	1,835	347	242	2,424	31	166,680	169,135
State and other political subdivision loans	65	—	—	65	—	734,550	734,615
Other loans	68	—	—	68	512	421,916	422,496
Total	$9,743	$2,280	$ 2,300	$14,323	$ 55,312	$7,021,750	$7,091,385

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

Past Due Loans Held for Sale (LHFS)

LHFS past due 90 days or more totaled $23.5 million and $21.8 million at June 30, 2016 and December 31, 2015, respectively. LHFS past due 90 days or more are serviced loans eligible for repurchase, which are fully guaranteed by the Government National Mortgage Association (GNMA). GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings.

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

Allowance for Loan Losses, LHFI

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

Commercial Purpose LHFI

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

Commercial Construction LHFI

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

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

Qualitative factors used in the allowance methodology include the following:

- National and regional economic trends and conditions
- Impact of recent performance trends
- Experience, ability and effectiveness of management
- Adherence to Trustmark's loan policies, procedures and internal controls
- Collateral, financial and underwriting exception trends
- Credit concentrations
- Loan facility risk
- Acquisitions
- Catastrophe

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

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

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

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

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

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

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

Trustmark's loan policy dictates the guidelines to be followed in determining when a loan is charged off. Commercial purpose loans are charged off when a determination is made that the loan is uncollectible and continuance as a bankable asset is not warranted or an impairment evaluation indicates that a value adjustment is necessary. Consumer loans secured by 1-4 family residential real estate are generally charged off or written down when the credit becomes

severely delinquent and the balance exceeds the fair value of the property less costs to sell. Non-real estate consumer purpose loans, both secured and unsecured, are generally charged off in full during the month in which the loan becomes 120 days past due. Credit card loans are generally charged off in full when the loan becomes 180 days past due.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$69,668	$71,321	$67,619	$69,616
Loans charged-off	(3,251)	(4,278)	(6,614)	(7,282)
Recoveries	2,783	3,090	5,952	6,014
Net charge-offs	(468)	(1,188)	(662)	(1,268)
Provision for loan losses, LHFI	2,596	1,033	4,839	2,818
Balance at end of period	$71,796	$71,166	$71,796	$71,166

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

2016	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance June 30,
Loans secured by real estate:					
Construction, land development and other land	$11,587	$ (212)	$ 657	$ (1,314)	$10,718
Secured by 1-4 family residential properties	10,678	(970)	566	(459)	9,815
Secured by nonfarm, nonresidential properties	21,563	(105)	802	2,090	24,350
Other real estate secured	2,467	—	3	284	2,754
Commercial and industrial loans	15,815	(1,810)	318	3,628	17,951
Consumer loans	2,879	(889)	1,822	(780)	3,032
State and other political subdivision loans	809	—	—	104	913
Other loans	1,821	(2,628)	1,784	1,286	2,263
Total allowance for loan losses, LHFI	$67,619	$ (6,614)	$ 5,952	$ 4,839	$71,796

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$534	$ 10,184	$10,718
Secured by 1-4 family residential properties	543	9,272	9,815
Secured by nonfarm, nonresidential properties	4,484	19,866	24,350
Other real estate secured	360	2,394	2,754
Commercial and industrial loans	3,600	14,351	17,951
Consumer loans	—	3,032	3,032
State and other political subdivision loans	—	913	913

Other loans	179	2,084	2,263
Total allowance for loan losses, LHFI	$9,700	$ 62,096	$71,796

	2015 Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance June 30,
Loans secured by real estate:					
Construction, land development and other land loans	$13,073	$ (928)	$ 350	$ 1,418	$13,913
Secured by 1-4 family residential properties	9,677	(1,195)	106	229	8,817
Secured by nonfarm, nonresidential properties	18,523	(158)	392	(292)	18,465
Other real estate secured	2,141	(24)	3	(160)	1,960
Commercial and industrial loans	19,917	(1,256)	1,432	2,715	22,808
Consumer loans	2,149	(1,012)	1,897	(1,150)	1,884
State and other political subdivision loans	1,314	—	—	(713)	601
Other loans	2,822	(2,709)	1,834	771	2,718
Total allowance for loan losses, LHFI	$69,616	$ (7,282)	$ 6,014	$ 2,818	$71,166

	Disaggregated by Impairment Method		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land loans	$3,007	$ 10,906	$13,913
Secured by 1-4 family residential properties	469	8,348	8,817
Secured by nonfarm, nonresidential properties	3,295	15,170	18,465
Other real estate secured	46	1,914	1,960
Commercial and industrial loans	7,196	15,612	22,808
Consumer loans	—	1,884	1,884
State and other political subdivision loans	—	601	601
Other loans	207	2,511	2,718
Total allowance for loan losses, LHFI	$14,220	$ 56,946	$71,166

Note 4 – Acquired Loans

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

	June 30, 2016		December 31, 2015	
	Noncovered	Covered	Noncovered	Covered
Loans secured by real estate:				
Construction, land development and other land	$37,682	$334	$41,623	$1,021
Secured by 1-4 family residential properties	73,313	8,363	86,950	10,058
Secured by nonfarm, nonresidential properties	115,989	3,709	135,626	4,638
Other real estate secured	24,015	1,257	23,860	1,286
Commercial and industrial loans	49,639	121	55,075	624
Consumer loans	4,295	—	5,641	—
Other loans	20,263	55	23,936	73
Acquired loans	325,196	13,839	372,711	17,700
Less allowance for loan losses, acquired loans	12,218	262	11,259	733
Net acquired loans	$312,978	$13,577	$361,452	$16,967

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

	Noncovered		Covered	
	Acquired	Acquired	Acquired	Acquired
	Impaired	Not ASC	Impaired	Not ASC

		310-30 (1)		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
Accretion to interest income	9,245	3	747	2
Payments received, net	(50,126)	(6,802)	(3,904)	(271)
Other (2)	165	—	(435)	—
Less change in allowance for loan losses, acquired loans	(957)	(2)	471	—
Carrying value, net at June 30, 2016	$253,693	$59,285	$12,275	$ 1,302

(1) "Acquired Not ASC 310-30" loans consist of revolving credit agreements and commercial leases that are not in scope for FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality."

(2) Includes miscellaneous timing adjustments as well as acquired loan terminations through foreclosure, charge-off and other terminations.

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

	Six Months Ended June 30,	
	2016	2015
Accretable yield at beginning of period	$(52,672)	$(77,149)
Accretion to interest income	9,992	18,449
Disposals	2,427	4,700
Reclassification to / (from) nonaccretable difference (1)	(5,741)	(9,943)
Accretable yield at end of period	$(45,994)	$(63,943)

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

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

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Balance at beginning of period	$13,212	$ 323	$13,535	$11,259	$ 733	$11,992
Provision for loan losses, acquired loans	652	(45)	607	2,283	(367)	1,916
Loans charged-off	(2,037)	(17)	(2,054)	(2,369)	(82)	(2,451)
Recoveries	391	1	392	1,045	(22)	1,023
Net charge-offs	(1,646)	(16)	(1,662)	(1,324)	(104)	(1,428)
Balance at end of period	$12,218	$ 262	$12,480	$12,218	$ 262	$12,480

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Balance at beginning of period	$11,106	$ 731	$11,837	$10,541	$ 1,518	$12,059
Provision for loan losses, acquired loans	917	(92)	825	1,576	(404)	1,172
Loans charged-off	(2,066)	66	(2,000)	(2,568)	(450)	(3,018)
Recoveries	1,970	(3)	1,967	2,378	38	2,416
Net (charge-offs) recoveries	(96)	63	(33)	(190)	(412)	(602)
Balance at end of period	$11,927	$ 702	$12,629	$11,927	$ 702	$12,629

As discussed in Note 3 - Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI, Trustmark has established a loan grading system that consists of ten individual credit risk grades (risk ratings) that encompass a range from loans where the expectation of loss is negligible to loans where loss has been established. The model is

based on the risk of default for an individual credit and establishes certain criteria to segregate the level of risk across the ten unique risk ratings. These credit quality measures are unique to commercial loans. Credit quality for consumer loans is based on individual credit scores, aging status of the loan and payment activity.

The tables below illustrate the carrying amount of acquired loans by credit quality indicator at June 30, 2016 and December 31, 2015 ($ in thousands):

	June 30, 2016				
	Commercial Loans				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Noncovered Loans:					
Loans secured by real estate:					
Construction, land development and other land	$15,442	$ 124	$ 16,927	$ 3,028	$35,521
Secured by 1-4 family residential properties	17,369	7	4,571	316	22,263
Secured by nonfarm, nonresidential properties	94,781	1,099	19,506	603	115,989
Other real estate secured	19,655	—	3,659	697	24,011
Commercial and industrial loans	32,504	5	15,614	1,502	49,625
Consumer loans	—	—	—	—	—
Other loans	13,880	—	6,223	160	20,263
Total noncovered loans	193,631	1,235	66,500	6,306	267,672
Covered Loans: (1)					
Loans secured by real estate:					
Construction, land development and other land	260	—	7	—	267
Secured by 1-4 family residential properties	684	67	183	—	934
Secured by nonfarm, nonresidential properties	3,342	7	302	—	3,651
Other real estate secured	715	—	108	—	823
Commercial and industrial loans	101	20	—	—	121
Other loans	53	—	—	—	53
Total covered loans	5,155	94	600	—	5,849
Total acquired loans	$198,786	$ 1,329	$ 67,100	$ 6,306	$273,521

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual (2)	Subtotal	Total Acquired Loans
Noncovered Loans:						
Loans secured by real estate:						
Construction, land development and other land	$2,032	$ 129	$ —	$ —	$2,161	$ 37,682
Secured by 1-4 family residential properties	48,289	2,377	262	122	51,050	73,313
Secured by nonfarm, nonresidential properties	—	—	—	—	—	115,989
Other real estate secured	4	—	—	—	4	24,015
Commercial and industrial loans	14	—	—	—	14	49,639
Consumer loans	4,258	37	—	—	4,295	4,295
Other loans	—	—	—	—	—	20,263
Total noncovered loans	54,597	2,543	262	122	57,524	325,196
Covered Loans: (1)						
Loans secured by real estate:						
Construction, land development and other land	52	7	8	—	67	334
Secured by 1-4 family residential properties	6,745	409	275	—	7,429	8,363
Secured by nonfarm, nonresidential properties	58	—	—	—	58	3,709
Other real estate secured	434	—	—	—	434	1,257
Commercial and industrial loans	—	—	—	—	—	121
Other loans	2	—	—	—	2	55
Total covered loans	7,291	416	283	—	7,990	13,839
Total acquired loans	$61,888	$ 2,959	$ 545	$ 122	$65,514	$ 339,035

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

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

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

(1) Total dollar balances are presented in this table; however, these loans are covered by the loss-share agreement with the FDIC. TNB is at risk for only 20% of the losses incurred on these loans.

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

At June 30, 2016 and December 31, 2015, there were no acquired impaired loans accounted for under FASB ASC Topic 310-30 classified as nonaccrual loans. At June 30, 2016, approximately $715 thousand of acquired loans not accounted for under FASB ASC Topic 310-30 were classified as nonaccrual loans, compared to approximately $1.0 million of acquired loans at December 31, 2015.

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

	June 30, 2016 Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)	Total	Nonaccrual (2)	Current Loans	Total Acquired Loans
Noncovered loans:							
Loans secured by real estate:							
Construction, land development and other land	$73	$56	$ 12,882	$13,011	$ —	$24,671	$ 37,682
Secured by 1-4 family residential properties	2,003	418	331	2,752	181	70,380	73,313
Secured by nonfarm, nonresidential properties	167	124	462	753	269	114,967	115,989
Other real estate secured	—	21	2,313	2,334	—	21,681	24,015
Commercial and industrial loans	35	1	—	36	231	49,372	49,639
Consumer loans	11	26	—	37	—	4,258	4,295
Other loans	—	85	—	85	—	20,178	20,263
Total noncovered loans	2,289	731	15,988	19,008	681	305,507	325,196
Covered loans:							
Loans secured by real estate:							
Construction, land development and other land	—	7	8	15	—	319	334
Secured by 1-4 family residential properties	318	141	275	734	—	7,629	8,363
Secured by nonfarm, nonresidential properties	—	—	172	172	—	3,537	3,709
Other real estate secured	—	—	—	—	—	1,257	1,257
Commercial and industrial loans	—	—	—	—	34	87	121
Other loans	—	—	—	—	—	55	55
Total covered loans	318	148	455	921	34	12,884	13,839
Total acquired loans	$2,607	$879	$ 16,443	$19,929	$ 715	$318,391	$ 339,035

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

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

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

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

Note 5 – Mortgage Banking

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

	Six Months Ended June 30,	
	2016	2015
Balance at beginning of period	$74,007	$64,358
Origination of servicing assets	7,211	8,157
Change in fair value:		
Due to market changes	(13,899)	3,708
Due to runoff	(4,505)	(4,801)
Balance at end of period	$62,814	$71,422

During the first six months of 2016 and 2015, Trustmark sold $590.7 million and $579.9 million, respectively, of residential mortgage loans. Pretax gains on these sales were recorded to noninterest income in mortgage banking, net and totaled $8.1 million for the first six months of 2016 compared to $8.8 million for the first six months of 2015. Trustmark's mortgage loans serviced for others totaled $6.119 billion at June 30, 2016, compared with $5.971 billion at December 31, 2015. The table below details the mortgage loans sold and serviced for others at June 30, 2016 and December 31, 2015 ($ in thousands):

	June 30, 2016	December 31, 2015
Federal National Mortgage Association	$3,843,796	$3,750,685
Government National Mortgage Association	2,177,968	2,111,797
Federal Home Loan Mortgage Corporation	61,064	67,817
Other	35,983	41,013
Total mortgage loans sold and serviced for others	$6,118,811	$5,971,312

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

When a putback request is received, Trustmark evaluates the request and takes appropriate actions based on the nature of the request. Effective January 1, 2013, Trustmark was required by FNMA and FHLMC to provide a response to putback requests within 60 days of the date of receipt. Currently, putback requests primarily relate to 2009 through 2013 vintage mortgage loans. The total mortgage loan servicing putback expenses incurred by Trustmark during the first six months of 2016 were $210 thousand compared to $105 thousand during the same time period in 2015.

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

	Six Months Ended June 30,	
	2016	2015
Balance at beginning of period	$1,685	$1,170
Provision for putback expenses	210	105
(Losses) gains	(944)	126

Balance at end of period	$951	$1,401

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

Note 6 –Other Real Estate and Covered Other Real Estate

Other Real Estate, excluding Covered Other Real Estate

At June 30, 2016, Trustmark's geographic other real estate distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. The ultimate recovery of a substantial portion of the carrying amount of other real estate, excluding covered other real estate, is susceptible to changes in market conditions in these areas.

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

	Six Months Ended June 30,	
	2016	2015
Balance at beginning of period	$77,177	$92,509
Additions	8,224	20,532
Disposals	(12,908)	(21,300)
Write-downs	(2,991)	(993)
Balance at end of period	$69,502	$90,748
Gain, net on the sale of other real estate included in ORE/Foreclosure expense	$2,659	$2,268

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

	June 30, 2016	December 31, 2015
Construction, land development and other land properties	$41,881	$ 47,550
1-4 family residential properties	7,869	10,732
Nonfarm, nonresidential properties	17,840	16,717
Other real estate properties	1,912	2,178
Total other real estate, excluding covered other real estate	$69,502	$ 77,177

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

	June 30, 2016	December 31, 2015
Alabama	$18,031	$ 21,578
Florida	28,052	29,579
Mississippi (1)	14,435	14,312
Tennessee (2)	7,432	9,974
Texas	1,552	1,734
Total other real estate, excluding covered other real estate	$69,502	$ 77,177

(1) Mississippi includes Central and Southern Mississippi Regions

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

Covered Other Real Estate

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

	Six Months Ended June 30,	
	2016	2015
Balance at beginning of period	$1,651	$6,060
Transfers from covered loans	456	177
FASB ASC 310-30 adjustment for the residual recorded investment	(12)	(917)
Net transfers from covered loans	444	(740)
Disposals	(1,679)	(1,188)
Write-downs	(28)	(377)
Balance at end of period	$388	$3,755
Gain (loss), net on the sale of covered other real estate included in ORE/Foreclosure expense	$786	$(99)

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

	June 30, 2016	December 31, 2015
Construction, land development and other land properties	$—	$ 638
1-4 family residential properties	287	223
Nonfarm, nonresidential properties	101	399
Other real estate properties	—	391
Total covered other real estate	$388	$ 1,651

Note 7 – Deposits

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

	June 30, 2016	December 31, 2015
Noninterest-bearing demand	$2,921,016	$2,998,694
Interest-bearing demand	1,777,387	1,938,497
Savings	3,159,868	2,970,997
Time	1,673,253	1,680,042
Total	$9,531,524	$9,588,230

Note 8 – Securities Sold Under Repurchase Agreements

Trustmark utilizes securities sold under repurchase agreements as a source of borrowing in connection with overnight repurchase agreements offered to commercial deposit customers by using its unencumbered investment securities as collateral. Trustmark accounts for its securities sold under repurchase agreements as secured borrowings in accordance with FASB ASC Topic 860-30, “Transfers and Servicing – Secured Borrowing and Collateral.” Securities sold under repurchase agreements are stated at the amount of cash received in connection with the transaction. Trustmark monitors collateral levels on a continual basis and may be required to provide additional collateral based on the fair value of the underlying securities. Trustmark’s repurchase agreements are transacted under master repurchase agreements that give Trustmark, in the event of default by the counterparty, the right of offset with the same counterparty. As of June 30, 2016, all repurchase agreements were short-term and consisted primarily of sweep repurchase arrangements, under which excess deposits are “swept” into overnight repurchase agreements with Trustmark. The following table presents the securities sold under repurchase agreements by collateral pledged at June 30, 2016 and December 31, 2015 ($ in thousands):

	June 30, 2016	December 31, 2015
U.S. Government agency obligations		
Issued by U.S. Government sponsored agencies	$15,172	$22,516
Obligations of states and political subdivisions	9,747	—
Mortgage-backed securities		
Other residential mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	128,132	102,604
Total securities sold under repurchase agreements	$153,051	$125,120

Note 9 – Defined Benefit and Other Postretirement Benefits

Qualified Pension Plans

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

On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan, effective as of December 31, 2016. To satisfy commitments made by Trustmark to associates (collectively, the "Continuing Associates") covered through acquired plans that were merged into the Plan, the Board also approved the spin-off of the portion of the Plan associated with the accrued benefits of the Continuing Associates into a new plan titled the Trustmark Corporation Pension Plan for Certain Employees of Acquired Financial Institutions (the "Spin-Off Plan"), effective as of December 31, 2016, immediately prior to the termination of the Plan.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	$108	$129	$216	$260
Interest cost	830	864	1,660	1,726
Expected return on plan assets	(1,022)	(1,297)	(2,044)	(2,593)
Recognized net loss due to lump sum settlements	2,248	479	2,671	896
Recognized net actuarial loss	660	971	1,321	1,938
Net periodic benefit cost	$2,824	$1,146	$3,824	$2,227

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

of Trustmark will monitor the Plan throughout 2016 to determine any additional funding requirements by the Plan's measurement date.

Supplemental Retirement Plans

Trustmark maintains a nonqualified supplemental retirement plan covering key executive officers and senior officers as well as directors who have elected to defer fees. The plan provides for retirement and/or death benefits based on a participant's covered salary or deferred fees. Although plan benefits may be paid from Trustmark's general assets, Trustmark has purchased life insurance contracts on the participants covered under the plan, which may be used to fund future benefit payments under the plan. The measurement date for the plan is December 31. As a result of the BancTrust merger on February 15, 2013, Trustmark became the administrator of an additional nonqualified supplemental retirement plan, for which the plan benefits were frozen prior to the merger date.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	$74	$108	$148	$216
Interest cost	542	519	1,088	1,043
Amortization of prior service cost	62	62	125	125
Recognized net actuarial loss	214	246	435	499
Net periodic benefit cost	$892	$935	$1,796	$1,883

Note 10 – Stock and Incentive Compensation Plans

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

Restricted Stock Grants

Performance Awards

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

Time-Vested Awards

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

The following table summarizes the Stock Plan activity for the periods presented:

	Three Months Ended June 30, 2016	
	Performance Awards	Time-Vested Awards
Nonvested shares, beginning of period	254,674	360,316
Released from restriction	(3,545)	(19,946)
Forfeited	(12,123)	(13,173)
Nonvested shares, end of period	239,006	327,197

	Six Months Ended June 30, 2016	
	Performance Awards	Time-Vested Awards
Nonvested shares, beginning of period	212,309	306,657
Granted	99,116	137,291
Released from restriction	(39,301)	(102,338)
Forfeited	(33,118)	(14,413)
Nonvested shares, end of period	239,006	327,197

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Performance awards	$307	$318	$407	$564
Time-vested awards	532	612	1,393	1,217
Total compensation expense	$839	$930	$1,800	$1,781

Note 11 – Contingencies

Lending Related

Trustmark makes commitments to extend credit and issues standby and commercial letters of credit (letters of credit) in the normal course of business in order to fulfill the financing needs of its customers. The carrying amount of commitments to extend credit and letters of credit approximates the fair value of such financial instruments. These amounts are not material to Trustmark's financial statements.

Commitments to extend credit are agreements to lend money to customers pursuant to certain specified conditions. Commitments generally have fixed expiration dates or other termination clauses. Because many of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contract amount of those instruments. Trustmark applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed creditworthiness of the borrower. At June 30, 2016 and 2015, Trustmark had unused commitments to extend credit of $2.978 billion and $2.540 billion, respectively.

Letters of credit are conditional commitments issued by Trustmark to insure the performance of a customer to a third-party. A financial standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to repay an outstanding loan or debt instrument. A performance standby letter of credit irrevocably obligates Trustmark to pay a third-party beneficiary when a customer fails to perform some contractual, nonfinancial obligation. When issuing letters of credit, Trustmark uses essentially the same policies regarding credit risk and collateral, which are followed in the lending process. At June 30, 2016 and 2015, Trustmark's maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was $112.4 million and $134.0 million, respectively. These amounts consist primarily of commitments with maturities of less than three years, which have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of June 30, 2016 and 2015, the fair value of collateral held was $28.0 million and $28.7 million, respectively.

Legal Proceedings

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

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

circumstances, to file legal actions for the benefit of Stanford investors. In December 2011, the OSIC filed a motion to intervene in this action. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues. In December 2012, the court granted the OSIC's motion to intervene, and the OSIC filed an Intervenor Complaint against one of the other defendant financial institutions. In February 2013, the OSIC filed a second Intervenor Complaint that asserts claims against TNB and the remaining defendant financial institutions. The OSIC seeks to recover: (i) alleged fraudulent transfers in the amount of the fees each of the defendants allegedly received from Stanford Financial Group, the profits each of the defendants allegedly made from Stanford Financial Group deposits, and other monies each of the defendants allegedly received from Stanford Financial Group; (ii) damages attributable to alleged conspiracies by each of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud and conversion on the asserted grounds that the defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme; and (iii) punitive damages. The OSIC did not quantify damages.

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

On June 23, 2015, the court allowed the Class Plaintiffs to file a Second Amended Class Action Complaint (SAC), which asserted new claims against TNB and certain of the other defendants for (i) aiding, abetting and participating in a fraudulent scheme, (ii) aiding, abetting and participating in violations of the Texas Securities Act, (iii) aiding, abetting and participating in breaches of fiduciary duty, (iv) aiding, abetting and participating in conversion and (v) conspiracy. On July 14, 2015, the defendants (including TNB) filed motions to dismiss the SAC and to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer claims against TNB and the other financial institutions that are defendants in the action. On July27, 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. Trustmark is evaluating this order and its options with respect to this litigation.

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

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

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

TNB has been named as a defendant in two separately filed but now consolidated lawsuits involving two testamentary trusts created in the will of Kathleen Killebrew Paine for her two children, Carolyn Paine Davis and W.K. Paine. TNB is named as the Trustee in both trusts. The lawsuits were filed on June 30, 2014 in the Chancery Court of the First Judicial District of Hinds County, Mississippi by Jennifer Davis Michael, Elizabeth Paine Lindigrin, Wilmer

Harrison Paine, Kenneth Whitworth Paine, Robert Harvey Paine and Nathan Davis, who are all children of Mrs. Davis and Mr. Paine. The complaints allege that the plaintiffs are vested current beneficiaries of the respective trusts; that the plaintiffs should have been entitled to be considered for distributions of trust income; and that the interests of Mrs. Davis and Mr. Paine were favored over plaintiffs' interest in both the distribution of income and in the making of trust investments. Plaintiffs seek compensatory damages, refund of trust fees and sweep fees, punitive damages, attorneys' fees and pre- and post-judgment interest. On March 9, 2015, the court granted TNB's motion to add Mrs. Davis and Mr. W.K. Paine as cross-defendants. Following a bench trial that concluded on January 20, 2016, the judge ordered the parties to enter into mandatory mediation. On February 22, 2016, the mediator reported to the judge that the mediation had failed to resolve the matter. The judge will next conduct a scheduling conference for a timeframe for the parties to submit findings of fact and conclusions of law to the court. The judge will consider those submissions and then enter a ruling on the case at some point in the future.

Trustmark and its subsidiaries are also parties to other lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to the lending, collection, servicing, investment, trust and other business activities, and some of the lawsuits allege substantial claims for damages.

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

Note 12 – Earnings Per Share (EPS)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic shares	67,620	67,557	67,615	67,541
Dilutive shares	150	128	146	122
Diluted shares	67,770	67,685	67,761	67,663

Weighted-average antidilutive stock awards were excluded in determining diluted EPS. The following table reflects weighted-average

antidilutive stock awards for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted-average antidilutive stock awards	1	—	1	—

Note 13 – Statements of Cash Flows

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

	Six Months Ended June 30,	
	2016	2015
Income taxes paid	$18,756	$10,286
Interest expense paid on deposits and borrowings	11,590	10,185
Noncash transfers from loans to other real estate (1)	8,668	19,792

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

Note 14 – Shareholders' Equity

Regulatory Capital

Trustmark and TNB are subject to minimum risk-based capital and leverage capital requirements, as described in the section captioned "Capital Adequacy" included in Part I. Item 1. – Business of Trustmark's 2015 Annual Report on Form 10-K, which are administered by the federal bank regulatory agencies. These capital requirements, as defined by federal regulations, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Effective January 1, 2016, Trustmark's and TNB's minimum risk-based capital requirements include the year-one phased in capital conservation buffer of 0.625%. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB and limit Trustmark's and TNB's ability to pay dividends. As of June 30, 2016, Trustmark and TNB exceeded all applicable minimum capital standards. In addition, Trustmark and TNB met applicable regulatory guidelines to be considered well-capitalized at June 30, 2016. To be categorized in this manner, Trustmark and TNB maintained minimum common equity Tier 1 risk-based capital, Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios as set forth in the accompanying table, and were not subject to any written agreement, order or capital directive, or prompt corrective action directive issued by their primary federal regulators to meet and maintain a specific capital level for any capital measures. There are no significant conditions or events that have occurred since June 30, 2016, which Management believes have affected Trustmark's or TNB's present classification.

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

	Actual					
	Regulatory Capital Amount	Ratio	Minimum Requirement		To Be Well Capitalized	
At June 30, 2016:						
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,177,431	12.32%	5.125	%	n/a	
Trustmark National Bank	1,218,943	12.75%	5.125	%	6.50	%
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,237,103	12.94%	6.625	%	n/a	
Trustmark National Bank	1,218,943	12.75%	6.625	%	8.00	%
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,321,379	13.82%	8.625	%	n/a	
Trustmark National Bank	1,303,219	13.63%	8.625	%	10.00	%
Tier 1 Leverage (to Average Assets)						
Trustmark Corporation	$1,237,103	9.93 %	4.00	%	n/a	
Trustmark National Bank	1,218,943	9.80 %	4.00	%	5.00	%
At December 31, 2015:						
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,161,598	12.57%	4.50	%	n/a	
Trustmark National Bank	1,201,113	13.00%	4.50	%	6.50	%
Tier 1 Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,220,535	13.21%	6.00	%	n/a	
Trustmark National Bank	1,201,113	13.00%	6.00	%	8.00	%
Total Capital (to Risk Weighted Assets)						
Trustmark Corporation	$1,300,146	14.07%	8.00	%	n/a	
Trustmark National Bank	1,280,724	13.86%	8.00	%	10.00	%
Tier 1 Leverage (to Average Assets)						
Trustmark Corporation	$1,220,535	10.03%	4.00	%	n/a	
Trustmark National Bank	1,201,113	9.89 %	4.00	%	5.00	%

Stock Repurchase Program

On March 11, 2016, the Board of Directors of Trustmark authorized a stock repurchase program under which $100.0 million of Trustmark's outstanding common stock may be acquired through March 31, 2019. The shares may be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Trustmark repurchased approximately 34 thousand shares of its common stock during the three and six months ended June 30, 2016.

Other Comprehensive Income and Accumulated Other Comprehensive Loss

The following table presents the components of accumulated other comprehensive loss and the related tax effects allocated to each component for the six months ended June 30, 2016 and 2015 ($ in thousands). Reclassification adjustments related to securities available for sale are included in security losses, net in the accompanying consolidated statements of income. The amortization of prior service cost, recognized net loss due to lump sum settlements and change in net actuarial loss on pension and other postretirement benefit plans are included in the computation of net periodic benefit cost (see Note 9 – Defined Benefit and Other Postretirement Benefits for additional details). Reclassification adjustments related to pension and other postretirement benefit plans are included in salaries and employee benefits in the accompanying consolidated statements of income. Reclassification adjustments related to the cash flow hedge derivative are included in other interest expense in the accompanying consolidated statements of income.

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Securities available for sale and transferred securities:						
Unrealized holding gains (losses) arising during the period	$9,372	$ (3,585)	$ 5,787	$(22,593)	$ 8,642	$(13,951)
Reclassification adjustment for net losses realized in net income	—	—	—	—	—	—
Change in net unrealized holding loss on securities transferred to held to maturity	2,973	(1,137)	1,836	1,653	(632)	1,021
Total securities available for sale and transferred securities	12,345	(4,722)	7,623	(20,940)	8,010	(12,930)
Pension and other postretirement benefit plans:						
Net change in prior service costs	62	(23)	39	62	(24)	38
Recognized net loss due to lump sum settlements	2,248	(860)	1,388	479	(183)	296
Change in net actuarial loss	874	(334)	540	1,216	(465)	751
Reclassification related to net losses realized in net income	3,184	(1,217)	1,967	1,757	(672)	1,085

Cash flow hedge derivatives:						
Change in accumulated loss on effective cash flow hedge derivatives	(449)	172	(277)	282	(108)	174
Reclassification adjustment for loss realized in net income	156	(60)	96	209	(79)	130
Total cash flow hedge derivatives	(293)	112	(181)	491	(187)	304
Total other comprehensive income (loss)	$15,236	$ (5,827)	$9,409	$(18,692)	$ 7,151	$(11,541)

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Securities available for sale and transferred securities:						
Unrealized holding losses arising during the period	$44,714	$ (17,102)	$27,612	$(4,154)	$ 1,589	$(2,565)
Reclassification adjustment for net gains realized in net income	310	(119)	191	—	—	—
Change in net unrealized holding loss on securities transferred to held to maturity	5,697	(2,179)	3,518	3,069	(1,174)	1,895
Total securities available for sale and transferred securities	50,721	(19,400)	31,321	(1,085)	415	(670)
Pension and other postretirement benefit plans:						
Net change in prior service costs	125	(48)	77	125	(48)	77
Recognized net loss due to lump sum settlements	2,671	(1,022)	1,649	896	(343)	553
Change in net actuarial loss	1,756	(671)	1,085	2,437	(932)	1,505
Reclassification related to net losses realized in net income	4,552	(1,741)	2,811	3,458	(1,323)	2,135
Cash flow hedge derivatives:						
Change in accumulated loss on effective cash flow hedge derivatives	(1,777)	680	(1,097)	(703)	269	(434)
Reclassification adjustment for loss realized in net income	316	(121)	195	421	(161)	260
Total cash flow hedge derivatives	(1,461)	559	(902)	(282)	108	(174)
Total other comprehensive income	$53,812	$ (20,582)	$33,230	$2,091	$ (800)	$1,291

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

	Securities Available for Sale	Defined Benefit	Cash Flow Hedge	Total

	and Transferred Securities	Pension Items	Derivatives	
Balance at January 1, 2016	$ (17,394)	$(27,840)	$ (160)	$(45,394)
Other comprehensive income (loss) before reclassification	31,130	—	(1,097)	30,033
Amounts reclassified from accumulated other comprehensive loss	191	2,811	195	3,197
Net other comprehensive income (loss)	31,321	2,811	(902)	33,230
Balance at June 30, 2016	$ 13,927	$(25,029)	$ (1,062)	$(12,164)
Balance at January 1, 2015	$ (11,003)	$(31,617)	$ 136	$(42,484)
Other comprehensive (loss) income before reclassification	(670)	2,135	(434)	1,031
Amounts reclassified from accumulated other comprehensive loss	—	—	260	260
Net other comprehensive income (loss)	(670)	2,135	(174)	1,291
Balance at June 30, 2015	$ (11,673)	$(29,482)	$ (38)	$(41,193)

Note 15 – Fair Value

Financial Instruments Measured at Fair Value

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

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

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

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

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

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

Trustmark also utilizes exchange-traded derivative instruments such as Treasury note futures contracts and option contracts to achieve a fair value return that offsets the changes in fair value of the MSR attributable to interest rates. Fair values of these derivative instruments are determined from quoted prices in active markets for identical assets therefore allowing them to be classified within Level 1 of the fair value hierarchy. In addition, Trustmark utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area which lack observable inputs for valuation purposes resulting in their inclusion in Level 3 of the fair value hierarchy.

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

Financial Assets and Liabilities

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value ($ in thousands). There were no transfers between fair value levels for the six months ended June 30, 2016 and the year ended December 31, 2015.

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	$61,645	$—	$61,645	$—
Obligations of states and political subdivisions	129,285	—	129,285	—
Mortgage-backed securities	2,197,376	—	2,197,376	—
Securities available for sale	2,388,306	—	2,388,306	—
Loans held for sale	213,546	—	213,546	—
Mortgage servicing rights	62,814	—	—	62,814
Other assets - derivatives	15,573	5,031	5,870	4,672
Other liabilities - derivatives	12,741	925	11,816	—

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
U.S. Government agency obligations	$68,416	$—	$68,416	$—
Obligations of states and political subdivisions	138,609	—	138,609	—
Mortgage-backed securities	2,113,440	—	2,113,440	—
Asset-backed securities and structured financial products	24,957	—	24,957	—
Securities available for sale	2,345,422	—	2,345,422	—
Loans held for sale	160,189	—	160,189	—
Mortgage servicing rights	74,007	—	—	74,007
Other assets - derivatives	3,611	(149)	2,647	1,113
Other liabilities - derivatives	3,929	1,220	2,709	—

The changes in Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2016 and 2015 are summarized as follows ($ in thousands):

	MSR	Other Assets - Derivatives
Balance, January 1, 2016	$ 74,007	$ 1,113
Total net (loss) gain included in Mortgage banking, net (1)	(18,404)	7,340
Additions	7,211	—
Sales	—	(3,781)
	$ 62,814	$ 4,672

Balance, June 30, 2016				
The amount of total (losses) gains for the period included in earnings that are attributable to the change in unrealized gains or losses still held at June 30, 2016	$	(13,899)	$	1,157
Balance, January 1, 2015	$	64,358	$	1,299
Total net (loss) gain included in Mortgage banking, net (1)		(1,093)		3,715
Additions		8,157		—
Sales		—		(3,393)
Balance, June 30, 2015	$	71,422	$	1,621
The amount of total gains (losses) for the period included in earnings that are attributable to the change in unrealized gains or losses still held at June 30, 2015	$	3,708	$	(564)

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

Trustmark may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. Assets at June 30, 2016, which have been measured at fair value on a nonrecurring basis, include impaired LHFI. Loans for which it is probable Trustmark will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement are considered impaired. Specific allowances for impaired LHFI are based on comparisons of the recorded carrying values of the loans to the present value of the estimated cash flows of these loans at each loan's original effective interest rate, the fair value of the collateral or the observable market prices of the loans. Impaired LHFI are primarily collateral dependent loans and are assessed using a fair value approach. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or as-is value of the property being appraised, normally from recently received and reviewed appraisals. Appraisals are obtained from state-certified appraisers and are based on certain assumptions, which may include construction or development status and the highest and best use of the property. These appraisals are reviewed by Trustmark's Appraisal Review Department to ensure they are acceptable. Appraised values are adjusted down for costs associated with asset disposal. At June 30, 2016, Trustmark had outstanding balances of $37.3 million in impaired LHFI that were specifically identified for evaluation and written down to the fair value of the underlying collateral less cost to sell based on the fair value of the collateral or other unobservable input compared to $26.5 million at December 31, 2015. These specifically evaluated impaired LHFI are classified as Level 3 in the fair value hierarchy. Impaired LHFI are periodically reviewed and evaluated for additional impairment and adjusted accordingly based on the same factors identified above.

Nonfinancial Assets and Liabilities

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

Other real estate, excluding covered 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. In the determination of fair value subsequent to foreclosure, Management also considers other factors or recent developments, such as changes in market conditions from the time of valuation and anticipated sales values considering plans for disposition, which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. At June 30, 2016, Trustmark's geographic other real estate distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. The ultimate recovery of a substantial portion of the carrying amount of other real estate, excluding covered other real estate, is susceptible to changes in market conditions in these areas. Periodic revaluations are classified as Level 3 in the fair value hierarchy since assumptions are used that may not be observable in the market.

Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 3 inputs based on adjusted observable market data. Foreclosed assets measured at fair value upon initial recognition totaled $8.2 million (utilizing Level 3 valuation inputs) during the six months ended June 30, 2016 compared with $20.5 million for the same period in 2015. In connection with the measurement and initial recognition of the foregoing foreclosed assets, Trustmark recognized charge-offs of the allowance for loan losses totaling $1.8 million and $3.9 million for the first six months of 2016 and 2015, respectively. Other than foreclosed assets measured at fair value upon initial recognition, $21.4 million of foreclosed assets were remeasured during the first six months of 2016, requiring write-downs of $3.0 million to reach their current fair values compared to $25.7 million of foreclosed assets that were remeasured during the first six months of 2015, requiring write-downs of $993 thousand.

Fair Value of Financial Instruments

FASB ASC Topic 825, “Financial Instruments,” requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments can be found in Note 19 – Fair Value included in Item 8 of Trustmark’s Annual Report on Form 10-K for the year ended December 31, 2015.

The carrying amounts and estimated fair values of financial instruments at June 30, 2016 and December 31, 2015, are as follows ($ in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Level 2 Inputs:				
Cash and short-term investments	$325,247	$325,247	$278,001	$278,001
Securities held to maturity	1,173,204	1,210,044	1,187,818	1,195,367
Level 3 Inputs:				
Net LHFI	7,333,385	7,426,286	7,023,766	7,136,105
Net acquired loans	326,555	326,555	378,419	378,419
FDIC indemnification asset	—	—	738	738
Financial Liabilities:				
Level 2 Inputs:				
Deposits	9,531,524	9,534,947	9,588,230	9,592,531
Short-term liabilities	966,770	966,770	853,659	853,659
Long-term FHLB advances	751,106	751,109	501,155	501,160
Subordinated notes	49,985	50,891	49,969	51,405
Junior subordinated debt securities	61,856	42,062	61,856	49,021

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

The fair values of net LHFI are estimated for portfolios of loans with similar financial characteristics. For variable rate LHFI that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values of certain mortgage LHFI, such as 1-4 family residential properties, are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of other types of LHFI are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The processes for estimating the fair value of net LHFI described above does not represent an exit price under FASB ASC Topic 820, "Fair Value Measurements and Disclosures," and such an exit price could potentially produce a different fair value estimate at June 30, 2016 and December 31, 2015.

Fair Value Option

Trustmark has elected to account for its mortgage LHFS purchased or originated on or after October 1, 2014 under the fair value option, with interest income on these mortgage LHFS reported in interest and fees on LHFS and LHFI. The fair value of the mortgage LHFS is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan. The mortgage LHFS are actively managed and monitored and certain market risks of the loans may be mitigated through the use of derivatives. These derivative instruments are carried at fair value with changes in fair value recorded in noninterest income in mortgage banking, net. The changes in the fair value of the LHFS are largely offset by changes in the fair value of the derivative instruments. For the three and six months ended June 30, 2016, a net gain of $1.0 million and $3.8 million, respectively, was recorded in noninterest income in mortgage banking, net for changes in the fair value of the LHFS accounted for under the fair value option, compared to a net loss of $2.2 million and $1.8 million for the three and six months ended June 30, 2015, respectively. Interest and fees on LHFS and LHFI for the three and six months ended June 30, 2016 included $1.3 million and $2.2 million, respectively, of interest earned on the LHFS accounted for under the fair value option, compared to $1.3 million and $2.3 million for the same time periods in 2015. Election of the fair value option allows Trustmark to reduce the accounting volatility that would otherwise result from the asymmetry created by accounting for the financial instruments at the lower of cost or fair value and the derivatives at fair value. The fair value option election does not apply to the GNMA optional repurchase loans which do not meet the requirements under FASB ASC Topic 825 to be accounted for under the fair value option. GNMA optional repurchase loans totaled $33.6 million and $36.0 million at June 30, 2016 and December 31, 2015, respectively, and are included in LHFS on the accompanying consolidated balance sheets.

The following table provides information about the fair value and the contractual principal outstanding of the LHFS accounted for under the fair value option as of June 30, 2016 and December 31, 2015 ($ in thousands):

	June 30, 2016	December 31, 2015
Fair value of LHFS	$179,970	$124,165
LHFS contractual principal outstanding	172,592	121,608
Fair value less unpaid principal	$7,378	$2,557

Note 16 – Derivative Financial Instruments

Derivatives Designated as Hedging Instruments

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

No ineffectiveness related to the interest rate swap designated as a cash flow hedge was recognized in the consolidated statements of income for the six months ended June 30, 2016 and 2015. The accumulated net after-tax loss related to the effective cash flow hedge included in accumulated other comprehensive loss totaled $1.1 million and $160 thousand at June 30, 2016 and December 31, 2015, respectively. Amounts reported in accumulated other comprehensive loss related to this derivative are reclassified to other interest expense as interest payments are made on Trustmark's variable rate junior subordinated debentures. During the next twelve months, Trustmark estimates that $604 thousand will be reclassified as an increase to other interest expense.

Derivatives not Designated as Hedging Instruments

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in the fair value of the MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. The total notional amount of these derivative instruments were $325.0 million at June 30, 2016 compared to $264.5 million at December 31, 2015. Changes in the fair value of these exchange-traded derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of the MSR. The impact of this strategy resulted in a net negative ineffectiveness of $1.9 million compared to a net positive ineffectiveness of $2.1 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, the impact was a net negative ineffectiveness of $1.5 million compared to a net positive ineffectiveness of $3.4 million, respectively.

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward sales contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by changes in the fair value of LHFS. Trustmark's off-balance sheet obligations under these derivative instruments totaled $343.5 million at June 30, 2016, with a negative valuation adjustment of $3.9 million, compared to $190.5 million, with a positive valuation adjustment of $262 thousand as of December 31, 2015.

Trustmark also utilizes derivative instruments such as interest rate lock commitments in its mortgage banking area. Interest rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified time period. Changes in the fair value of these derivative instruments are recorded in noninterest income in mortgage banking, net and are offset by the changes in the fair value of forward sales contracts. Trustmark's off-balance sheet obligations under these derivative instruments totaled $240.0 million at June 30, 2016, with a positive valuation adjustment of $4.7 million, compared to $108.1 million, with a positive valuation adjustment of $1.1 million as of December 31, 2015.

Trustmark offers certain derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivatives transactions executed as part of this program are not designated as qualifying hedging relationships and are, therefore, carried at fair value with the change in fair value recorded in noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset. As of June 30, 2016, Trustmark had interest rate swaps with an aggregate notional amount of $390.1 million related to this program, compared to $359.3 million as of December 31, 2015.

Credit-risk-related Contingent Features

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

As of June 30, 2016 and December 31, 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 $7.7 million and $2.6 million, respectively. As of June 30, 2016, Trustmark had posted collateral of $6.8 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 June 30, 2016, it could have been required to settle its obligations under the agreements at the termination value.

Credit risk participation agreements arise when Trustmark contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. At both June 30, 2016 and December 31, 2015, Trustmark had entered into two risk participation agreements as a beneficiary with an aggregate notional amount of $14.5 million and $14.8 million, respectively. At June 30, 2016, Trustmark had entered into three risk participation agreements as a guarantor with an aggregate notional amount of $24.5 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 June 30, 2016 and December 31, 2015.

Tabular Disclosures

The following tables disclose the fair value of derivative instruments in Trustmark's balance sheets as of June 30, 2016 and December 31, 2015 as well as the effect of these derivative instruments on Trustmark's results of operations for the periods presented ($ in thousands):

	June 30, 2016	December 31, 2015
Derivatives in hedging relationships		
Interest rate contracts:		
Interest rate swaps included in other assets	$(1,721)	$ (259)
Derivatives not designated as hedging instruments		
Interest rate contracts:		
Futures contracts included in other assets	$4,725	$ (207)
Exchange traded purchased options included in other assets	306	58
OTC written options (rate locks) included in other assets	4,672	1,113
Interest rate swaps included in other assets	7,557	2,888
Credit risk participation agreements included in other assets	34	18
Forward contracts included in other liabilities	3,944	(262)
Exchange traded written options included in other liabilities	925	1,220
Interest rate swaps included in other liabilities	7,829	2,954
Credit risk participation agreements included in other liabilities	43	17

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Derivatives in hedging relationships				
Amount of loss reclassified from accumulated other comprehensive loss and recognized in other interest expense	$(156)	$(209)	$(316)	$(421)
Derivatives not designated as hedging instruments				
Amount of gain (loss) recognized in mortgage banking, net	$4,591	$(1,594)	$11,730	$2,956
Amount of (loss) gain recognized in bank card and other fees	(148)	118	(206)	34

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Derivatives in cash flow hedging relationship				
Amount of (loss) gain recognized in other comprehensive income (loss), net of tax	$(277)	$174	$(1,097)	$(434)

Trustmark's interest rate swap derivative instruments are subject to master netting agreements, and therefore, eligible for offsetting in the consolidated balance sheet. Trustmark has elected to not offset any derivative instruments in its consolidated balance sheets. Information about financial instruments that are eligible for offset in the consolidated balance sheets as of June 30, 2016 and December 31, 2015 is presented in the following tables ($ in thousands):

Offsetting of Derivative Assets
As of June 30, 2016

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 5,836	$ —	$ 5,836	$ —	$ —	$ 5,836

Offsetting of Derivative Liabilities
As of June 30, 2016

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	$ 7,829	$ —	$ 7,829	$ —	$ (5,902)	$ 1,927

Offsetting of Derivative Assets
As of December 31, 2015

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 2,629	$ —	$ 2,629	$ —	$ —	$ 2,629

Offsetting of Derivative Liabilities
As of December 31, 2015

	Gross Amounts of Recognized	Gross Amounts Offset in the Statement of	Net Amounts of Liabilities presented in the Statement of	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Posted	Net Amount

	Liabilities	Financial Position	Financial Position			
Derivatives	$ 2,954	$ —	$ 2,954	$ —	$ (1,195)	$ 1,759

Note 17 – Segment Information

Trustmark's management reporting structure includes three segments: General Banking, Wealth Management and Insurance. For a complete overview of Trustmark's operating segments, see Note 21 – Segment Information included in Part II. Item 8. – Financial Statements and Supplementary Data, of Trustmark's 2015 Annual Report on Form 10-K. There have been no significant changes in Trustmark's operating segments during the periods presented.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
General Banking				
Net interest income	$96,113	$96,815	$190,555	$194,075
Provision for loan losses, net	3,203	1,858	6,755	3,990
Noninterest income	26,629	28,417	54,023	54,157
Noninterest expense	96,812	86,843	182,705	172,360
Income before income taxes	22,727	36,531	55,118	71,882
Income taxes	4,005	8,297	11,324	16,381
General banking net income	$18,722	$28,234	$43,794	$55,501
Selected Financial Information				
Average assets	$12,743,248	$12,036,687	$12,709,507	$12,054,143
Depreciation and amortization	$8,724	$9,172	$17,209	$18,047
Wealth Management				
Net interest income	$207	$48	$452	$103
Noninterest income	7,959	7,722	15,247	15,729
Noninterest expense	6,093	6,408	11,984	13,178
Income before income taxes	2,073	1,362	3,715	2,654
Income taxes	793	502	1,421	1,015
Wealth management net income	$1,280	$860	$2,294	$1,639
Selected Financial Information				
Average assets	$5,763	$4,256	$4,076	$3,052
Depreciation and amortization	$43	$49	$87	$95
Insurance				
Net interest income	$57	$86	$110	$163
Noninterest income	9,639	9,404	18,233	18,020
Noninterest expense	7,274	7,015	14,434	13,944
Income before income taxes	2,422	2,475	3,909	4,239
Income taxes	921	967	1,491	1,629
Insurance net income	$1,501	$1,508	$2,418	$2,610
Selected Financial Information				
Average assets	$70,352	$72,316	$66,852	$62,053
Depreciation and amortization	$191	$228	$383	$387
Consolidated				
Net interest income	$96,377	$96,949	$191,117	$194,341
Provision for loan losses, net	3,203	1,858	6,755	3,990
Noninterest income	44,227	45,543	87,503	87,906
Noninterest expense	110,179	100,266	209,123	199,482

Income before income taxes	27,222	40,368	62,742	78,775
Income taxes	5,719	9,766	14,236	19,025
Consolidated net income	$21,503	$30,602	$48,506	$59,750
Selected Financial Information				
Average assets	$12,819,363	$12,113,259	$12,780,435	$12,119,248
Depreciation and amortization	$8,958	$9,449	$17,679	$18,529

Note 18 – Accounting Policies Recently Adopted and Pending Accounting Pronouncements

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. Management is currently evaluating the impact this ASU will have on Trustmark's consolidated financial statements.

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, including (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flow; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes; (6) the practical expedient for estimating the expected term; and (7) intrinsic value. The amendments of ASU 2016-09 are effective for interim and annual periods beginning after December 15, 2016. Management is currently evaluating the impact this ASU will have on Trustmark's consolidated financial statements; however, the adoption of ASU 2016-09 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." Issued in March 2016, ASU 2016-07 affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating the retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. The amendments of ASU 2016-07 are effective for interim and annual periods beginning after December 15, 2016. Management is currently evaluating the impact this ASU will have on Trustmark's consolidated financial statements; however, the adoption of ASU 2016-07 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." Issued in March 2016, ASU 2016-05 clarifies that a change in the counterparty to a

derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments of ASU 2016-05 are effective for interim and annual periods beginning after December 15, 2016. Management is currently evaluating the impact this ASU will have on Trustmark's consolidated financial statements; however, the adoption of ASU 2016-05 is not expected to have a material impact on Trustmark's consolidated financial statements.

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. Management is currently evaluating 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; and (iii) 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. Management is currently evaluating the impact this ASU will have on Trustmark's consolidated financial statements; however, 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. Management is currently evaluating the impact ASU 2014-09 will have on Trustmark's consolidated financial statements as well as the most appropriate method of application; however, regardless of the method of application selected, the adoption of ASU 2014-09 is not expected to have a material impact on Trustmark's consolidated financial statements.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following provides a narrative discussion and analysis of Trustmark Corporation's (Trustmark) financial condition and results of operations. This discussion should be read in conjunction with the unaudited consolidated financial statements and the supplemental financial data included in Part I. Item 1. – Financial Statements – of this report.

Description of Business

Trustmark, a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark's principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At June 30, 2016, TNB had total assets of $13.029 billion, which represented approximately 99.99% of the consolidated assets of Trustmark.

Through TNB and its other subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through 194 offices and 2,818 full-time equivalent associates (measured at June 30, 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 the Memphis and Northern Mississippi regions, which are collectively referred to herein as Trustmark's Tennessee market), and Texas (primarily in Houston, which is referred to herein as Trustmark's Texas market). Trustmark's operations are managed along three operating segments: General Banking Division, Wealth Management Division and Insurance Division. For a complete overview of Trustmark's business, see the section captioned "The Corporation" included in Part I. Item 1. – Business of Trustmark's 2015 Annual Report on Form 10-K.

Executive Overview

Trustmark continued to achieve solid financial results with total revenues of $140.6 million and $278.6 million for the three and six months ended June 30, 2016, respectively. Trustmark continued to maintain and expand customer relationships as reflected by growth across all five market regions in the loans held for investment (LHFI) portfolio, which increased $137.2 million, or 1.9%, during the second quarter of 2016 and $313.8 million, or 4.4%, during the first six months of 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. As a result of the ERP, 188 of the eligible associates retired by June 30, 2016. The ERP resulted in a one-time charge of $9.3 million to noninterest expense ($9.1 million included in salaries and employee benefits expense and $230 thousand included in other expense) during the second quarter of 2016. Trustmark reported net income of $21.5 million, or basic and diluted earnings per share (EPS) of $0.32, in the second quarter of 2016. Excluding the one-time charge related to the ERP, net income for the second quarter of 2016 totaled $27.2 million, or basic and diluted EPS of $0.40. Trustmark also continued the realignment of its retail delivery channels to enhance productivity and efficiency as well as promote additional revenue growth. During the second quarter of 2016, Trustmark continued its measured approach to the optimization of its retail delivery channels by closing six branches with limited growth opportunities in the Alabama, Florida and Mississippi market regions. 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 September 15, 2016, to shareholders of record on September 1, 2016.

Recent Economic and Industry Developments

The economy showed moderate signs of improvement in the first six months of 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 Board of Governors of the Federal Reserve System (FRB), the Brexit vote, and the upcoming 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 economic conditions, and thus may have an impact upon Trustmark's financial condition or results of operations.

In the July 2016 "Summary of Commentary on Current Economic Conditions by Federal Reserve Districts" (the "Beige Book"), the twelve Federal Reserve Districts' reports suggested national economic activity continued to expand at a modest pace during the reporting period, and noted consumer spending was generally positive; labor markets conditions remained stable as employment continued to grow; growth in lending activity and improvement in loan quality occurred, with the exception of the Federal Reserve's Eleventh District, Dallas; as well as improvements in both the residential and commercial real estate markets. Reports by the twelve Federal Reserve Districts also noted that the natural resources and energy sector remained weak due to price pressures. 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, with the exception of the energy sector. The Federal Reserve's Sixth District, Atlanta (which includes Trustmark's Alabama, Florida and Mississippi market regions) and the Eighth District, St. Louis (which includes Trustmark's Tennessee market region) also reported increased loan demand, improvements in residential and commercial real estate activity and increased construction. However, the Federal Reserve's Sixth District also reported inconsistency in commercial real estate growth, noting that the rate of improvement varied by

metropolitan area, submarket, and property type. The Federal Reserve's Eleventh District (which includes Trustmark's Texas market region) reported growth in the housing market and positive outlooks for the housing sector, with the exception of the Houston market which continued to weaken; no to slightly negative loan growth; depressed demand for oilfield services even as overall business activity improved; and continued deterioration in the financial positions of many oil-related firms despite the increase in prices.

In December 2015, the FRB increased the target range for the federal funds rate for the first time in over seven years. The FRB also indicated that it may further increase rates on a gradual basis through 2016, depending on economic conditions (although the FRB has recently signaled that it is likely to increase rates less frequently through the latter half of 2016 that had originally been anticipated). 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.

Financial Highlights

Trustmark reported net income of $21.5 million, or basic and diluted EPS of $0.32, in the second quarter of 2016, compared to $30.6 million, or basic and diluted EPS of $0.45, in the second quarter of 2015. The decline in net income when the second quarter of 2016 is compared to the same time period in 2015 was principally the result of the non-routine transaction expense resulting from the ERP. Excluding the non-routine transaction expense related to the ERP, net income for the second quarter of 2016 totaled $27.2 million, or basic and diluted EPS of $0.40. Trustmark's performance during the quarter ended June 30, 2016 produced a return on average tangible equity of 8.08%, a return on average assets of 0.67%, an average equity to average assets ratio of 11.80% and a dividend payout ratio of 71.88%, compared to a return on average tangible equity of 12.05%, a return on average assets of 1.01%, an average equity to average assets ratio of 12.01% and a dividend payout ratio of 51.11% during the quarter ended June 30, 2015.

Revenue, which is defined as net interest income plus noninterest income, totaled $140.6 million for the quarter ended June 30, 2016 compared to $142.5 million for the quarter ended June 30, 2015, a decrease of $1.9 million, or 1.3%. The decrease in total revenue for the second quarter of 2016 was principally the result of declines in interest and fees on acquired loans and mortgage banking, net, which were partially offset by increases in interest and fees on loans held for sale (LHFS) and LHFI and other income, net.

Interest and fees on acquired loans decreased $4.5 million, or 35.9%, when the second quarter of 2016 is compared to the same time period in 2015, in accordance with prior expectations. This was primarily due to a $3.5 million decline in accretion income and a $731 thousand decline in recoveries from the settlement of debt as acquired loans have continued to pay down as anticipated. Mortgage banking, net declined $2.8 million, or 29.1%, when the three months ended June 30, 2016 is compared to the same time period in 2015, principally due to a net negative hedge ineffectiveness of $1.9 million in the second quarter of 2016 compared to a net positive hedge ineffectiveness of $2.1 million in the second quarter of 2015. Interest and fees on LHFS and LHFI increased $5.6 million, or 8.2%, when the second quarter of 2016 is compared to the same time period in 2015, primarily due to an increase in the LHFI portfolio. LHFI totaled $7.405 billion at June 30, 2016, an increase of $958.1 million, or 14.9%, when compared to June 30, 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 loans secured by 1-4 family residential properties. Other income, net increased $1.8 million when the three months ended June 30, 2016 is compared to the same time period in 2015, primarily reflecting a decrease in the net reduction of the Federal Deposit Insurance Corporation (FDIC) indemnification asset related to the acquired covered loans and covered other real estate. The decrease in the net reduction of the FDIC indemnification asset was principally due to the decline in the balance of the FDIC indemnification asset as a result of amortization and valuation adjustments over the life of the loss share agreements as well as the expiration of a loss share agreement with the FDIC on June 30, 3016. See the section caption "Acquired Loans" for further discussion of the acquired loans covered by loss share agreements with the FDIC.

Trustmark's provision for loan losses, LHFI for the three months ended June 30, 2016 totaled $2.6 million, an increase of $1.6 million when compared to a provision for loan losses, LHFI of $1.0 million for the three months ended June 30, 2015. The increase in the provision for loan losses, LHFI for the second quarter of 2016 primarily reflects the net effect of revisions to the allowance for loan loss methodology for LHFI during 2015 and growth in the LHFI portfolio, partially offset by a decrease in net charge-offs of LHFI when compared to the second quarter of 2015. 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 June 30, 2016 totaled $607 thousand, a decrease of $218 thousand 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 $3.2 million for the second quarter of 2016, an increase of $1.3 million, or 72.4%, when compared to the same time period in 2015.

Trustmark reported net income of $48.5 million, or basic and diluted EPS of $0.72, for the first six months of 2016, compared to $59.8 million, or basic and diluted EPS of $0.88, for the first six months of 2015. The decline in net income when the first six months of 2016 is compared to the same time period in 2015 was principally the result of the non-routine transaction expense resulting from the ERP, an increase in the provision for loan losses, LHFI and an increase in other interest expense related to Federal Home Loan Bank (FHLB) advances with the FHLB of Dallas. Trustmark's performance during the six months ended June 30, 2016 produced a return on average tangible equity of 9.16%, a return on average assets of 0.76%, an average equity to average assets ratio of 11.77% and a dividend payout ratio of 63.89%, compared to a return on average tangible equity of 11.96%, a return on average assets of 0.99%, an average equity to average assets ratio of 11.93% and a dividend payout ratio of 52.27% during the six months ended June 30, 2015.

Revenue totaled $278.6 million for the first six months of 2016 compared to $282.2 million for the same time period in 2015, a decrease of $3.6 million, or 1.3%. The decrease in total revenue for the first six months of 2016 was principally the result of declines in interest and fees on acquired loans and mortgage banking, net and an increase in other interest expense, which were partially offset by increases in interest and fees on LHFS and LHFI and other income, net.

Interest and fees on acquired loans decreased $12.6 million, or 45.5%, when the first six months of 2016 is compared to the same time period in 2015, primarily due to a $8.5 million decline in accretion income and a $3.4 million decline in recoveries from the settlement of debt as acquired loans have continued to pay down as anticipated. Mortgage banking, net declined $3.0 million, or 16.4%, when the six months ended June 30, 2016 is compared to the same time period in 2015, principally due to a net negative hedge ineffectiveness of $1.5 million in the first six months of 2016 compared to a net positive hedge ineffectiveness of $3.4 million in the first six months of 2015 partially offset by a $1.7 million increase in the positive net valuation adjustment for the fair value of LHFS, interest rate lock commitments and forward sales contracts. Other interest expense increased $1.6 million, or 47.6%, when the first six months of 2016 is compared to the same time period in 2015, primarily due to an increase in interest expense on FHLB advances with the FHLB of Dallas, which Trustmark uses as a liquidity source. Trustmark had $300.0 million of outstanding short-term advances and $750.0 million of outstanding long-term advances at June 30, 2016, compared to $150.0 million of outstanding short-term advances and no outstanding long-term advances at June 30, 2015. Interest and fees on LHFS and LHFI increased $11.7 million, or 8.7%, when the first six months of 2016 is compared to the same time period in 2015, primarily due to the $958.1 million increase in the LHFI portfolio. Other income, net increased $3.7 million when the six months ended June 30, 2016 is compared to the same time period in 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 decrease in the net loss on the sale of premises and equipment due to a loss recorded during the first six months of 2015 on the sale of a former bank branch acquired in the February 2013 merger with BancTrust Financial Group, Inc. (BancTrust) and an increase in other miscellaneous income related to various contract bonuses and settlements received during the second quarter of 2016, partially offset by a decrease in the net revenues received related to Trustmark's nonqualified deferred compensation plan.

Trustmark's provision for loan losses, LHFI for the six months ended June 30, 2016 totaled $4.8 million, an increase of $2.0 million, or 71.7%, when compared to a provision for loan losses, LHFI of $2.8 million for the six months ended June 30, 2015. The increase in the provision for loan losses, LHFI for the first six months of 2016 primarily reflects the net effect of revisions to the allowance for loan loss methodology for LHFI during 2015 and growth in the LHFI portfolio, partially offset by a decrease in the amount of specific reserves required related to impaired LHFI in the Mississippi and Texas market regions when compared to the first six months of 2015. 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 six months ended June 30, 2016 totaled $1.9 million, an increase of $744 thousand, or 63.5%, when compared to the same time period in 2015. The increase in the provision for loan losses, acquired loans during the first six months of 2016 when compared to the same time period in 2015 was principally due to changes in expectations based on the periodic re-estimations performed during the period, primarily related to loans acquired from BancTrust, a decrease in charge-offs of acquired loans from both Heritage Banking Group (Heritage) and BancTrust partially offset by an increase in charge-offs of acquired loans from Bay Bank & Trust Co. (Bay Bank), and a decrease in recoveries of acquired loans from BancTrust. 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 $6.8 million for the first six months of 2016, an increase of $2.8 million, or 69.3%, when compared to the same time period in 2015.

At June 30, 2016, nonperforming assets, excluding acquired loans and covered other real estate, totaled $134.6 million, an increase of $2.1 million, or 1.6%, compared to December 31, 2015 as a result of an increase in nonaccrual LHFI partially offset by a decline in other real estate, excluding covered other real estate. Total nonaccrual LHFI were $65.1 million at June 30, 2016, representing an increase of $9.8 million, or 17.7%, relative to December 31, 2015 principally due to LHFI migrating to nonaccrual status in the Mississippi, Texas and Tennessee market regions partially offset by 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 Texas market region during the first six months of 2016. Other real estate, excluding covered other real estate, declined $7.7 million, or 9.9%, during the first six months of 2016 primarily due to properties sold as well as write-downs of properties in Trustmark's Alabama, Florida,

Mississippi and Tennessee market regions partially offset by properties foreclosed in the Florida, Mississippi and Alabama market regions.

LHFI totaled $7.405 billion at June 30, 2016, an increase of $313.8 million, or 4.4%, compared to December 31, 2015. The increase in LHFI during the first six months of 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. For additional information regarding changes in LHFI and comparative balances by loan category, see the section captioned "LHFI."

Trustmark has continued to experience improvements in credit quality on LHFI. As of June 30, 2016, classified LHFI balances decreased $9.9 million, or 5.4%, while criticized LHFI balances decreased $20.9 million, or 10.4%, when compared to balances at June 30, 2015. The decline in the volume of classified and criticized LHFI was primarily a result of upgrades of credits to a pass category and from repayment of several credits of significant size.

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 $9.532 billion at June 30, 2016, a decrease of $56.7 million, or 0.6% compared to December 31, 2015. During the first six months of 2016, noninterest-bearing deposits decreased $77.7 million, or 2.6%, primarily due to declines in public and consumer demand deposit accounts partially offset by growth in commercial demand deposit accounts, while interest-bearing deposits increased $21.0 million, or 0.3%, primarily due to growth in public interest-bearing accounts, all categories of savings accounts, public certificates of deposit and commercial money market accounts partially offset by all other categories of interest-bearing accounts.

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposits growth. Other short-term borrowings totaled $966.8 million at June 30, 2016, an increase of $113.1 million, or 13.3%, when compared with $853.7 million at December 31, 2015 as a result of the increase in earning assets, principally LHFI, and the decline in deposits. The increase in other short-term borrowings was principally due to a $145.0 million increase in upstream federal funds purchased as Trustmark has chosen to utilize this advantageous funding source. The increase in upstream federal funds purchased was partially offset by a $50.0 million decline in outstanding short-term FHLB advances with the FHLB of Dallas.

Long-term FHLB advances totaled $751.1 million at June 30, 2016, an increase of $250.0 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. Trustmark chose to utilize these long-term advances as a funding source due to the advantageous rates available in comparison to other sources of funding.

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 Trustmark’s 2015 Annual Report on Form 10-K.

In March 2016, the Board of Directors of the FDIC approved a final rule to increase Deposit Insurance Fund (DIF) to the statutorily required minimum level of 1.35 percent. Under a rule adopted by the FDIC in 2011, regular assessment rates for all banks will decline once the reserve ratio reaches 1.15 percent, which the FDIC expects will occur during the first half of 2016. The final rule approved in March 2016 will impose 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 percent after approximately two years of payments of these surcharges. The final rule became effective on July 1, 2016. Surcharges will begin July 1, 2016. However, if the reserve ratio has not reached 1.15 percent by July 1, 2016, surcharges will begin the first quarter after the reserve ratio reaches 1.15 percent. At this time, it has not yet been determined if the reserve ratio has reached the 1.15 percent threshold. Trustmark expects this information will become available before the end of the third quarter of 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.

In April and May 2016, the FRB, the Office of the Comptroller of the Currency (OCC), and other federal financial agencies re-proposed restrictions on incentive-based compensation pursuant to Section 956 of the Dodd-Frank Act for financial institutions with $1.0 billion or more in total consolidated assets. For institutions with at least $1.0 billion but less than $50.0 billion in total consolidated assets, such as Trustmark and TNB, the proposal would impose principles-based restrictions that are broadly consistent with existing interagency guidance on incentive-based compensation. Such institutions would be prohibited from entering into incentive compensation arrangements that

encourage inappropriate risk-taking by the institution (1) by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits, or (2) that could lead to material financial loss to the institution. The proposal would also impose certain governance and recordkeeping requirements on institutions of Trustmark and TNB's size. The FRB and OCC would reserve the authority to impose more stringent requirements on institutions of Trustmark and TNB's size. Trustmark is evaluating the potential impact, if any, of the proposal on its results of operations and financial condition.

Selected Financial Data

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Consolidated Statements of Income				
Total interest income	$102,331	$101,946	$202,929	$204,377
Total interest expense	5,954	4,997	11,812	10,036
Net interest income	96,377	96,949	191,117	194,341
Provision for loan losses, LHFI	2,596	1,033	4,839	2,818
Provision for loan losses, acquired loans	607	825	1,916	1,172
Noninterest income	44,227	45,543	87,503	87,906
Noninterest expense	110,179	100,266	209,123	199,482
Income before income taxes	27,222	40,368	62,742	78,775
Income taxes	5,719	9,766	14,236	19,025
Net Income	$21,503	$30,602	$48,506	$59,750
Revenues (1)				
Total revenues	$140,604	$142,492	$278,620	$282,247
Per Share Data				
Basic earnings per share	$0.32	$0.45	$0.72	$0.88
Diluted earnings per share	0.32	0.45	0.72	0.88
Cash dividends per share	0.23	0.23	0.46	0.46
Performance Ratios				
Return on average equity	5.72 %	8.44 %	6.49 %	8.33 %
Return on average tangible equity	8.08 %	12.05 %	9.16 %	11.96 %
Return on average assets	0.67 %	1.01 %	0.76 %	0.99 %
Average equity/average assets	11.80 %	12.01 %	11.77 %	11.93 %
Net interest margin (fully taxable equivalent)	3.56 %	3.81 %	3.55 %	3.84 %
Dividend payout ratio	71.88 %	51.11 %	63.89 %	52.27 %
Credit Quality Ratios (2)				
Net charge-offs/average loans	0.03 %	0.07 %	0.02 %	0.04 %
Provision for loan losses/average loans	0.14 %	0.06 %	0.13 %	0.09 %
Nonperforming loans/total loans (incl LHFS*)	0.85 %	1.04 %		
Nonperforming assets/total loans (incl LHFS*) plus ORE**	1.75 %	2.38 %		
Allowance for loan losses/total loans (excl LHFS*)	0.97 %	1.10 %		

June 30,	2016		2015	
Consolidated Balance Sheets				
Total assets	$13,030,349		$12,182,448	
Securities	3,561,510		3,636,544	
Total loans (including LHFS* and acquired loans)	7,957,762		7,061,011	
Deposits	9,531,524		9,792,174	
Total shareholders' equity	1,523,467		1,450,409	
Stock Performance				
Market value - close	$24.85		$24.98	
Book value	22.53		21.47	
Tangible book value	16.76		15.58	
Capital Ratios				
Total equity/total assets	11.69	%	11.91	%
Tangible equity/tangible assets	8.97	%	8.93	%
Tangible equity/risk-weighted assets	11.85	%	12.34	%
Tier 1 leverage ratio	9.93	%	10.14	%
Common equity tier 1 risk-based capital ratio	12.32	%	13.28	%
Tier 1 risk-based capital ratio	12.94	%	13.97	%
Total risk-based capital ratio	13.82	%	15.07	%

(1) Consistent with Trustmark's audited annual 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
Non-GAAP Financial Measures

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

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

These calculations are intended to complement the capital ratios defined by GAAP and banking regulators. Because GAAP does not include these capital ratio measures, Trustmark believes there are no comparable GAAP financial measures to these tangible common equity ratios. Despite the importance of these measures to Trustmark, there are

no standardized definitions for them and, as a result, Trustmark's calculations may not be comparable with other organizations. Also there may be limits in the usefulness of these measures to investors. As a result, Trustmark encourages readers to consider its consolidated financial statements and the notes related thereto in their entirety and not to rely on any single financial measure.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
TANGIBLE EQUITY					
AVERAGE BALANCES					
Total shareholders' equity		$1,512,841	$1,454,501	$1,503,763	$1,445,783
Less: Goodwill		(366,156)	(365,500)	(366,156)	(365,500)
Identifiable intangible assets		(24,961)	(30,385)	(25,835)	(31,386)
Total average tangible equity		$1,121,724	$1,058,616	$1,111,772	$1,048,897
PERIOD END BALANCES					
Total shareholders' equity		$1,523,467	$1,450,409		
Less: Goodwill		(366,156)	(365,500)		
Identifiable intangible assets		(24,058)	(32,042)		
Total tangible equity	(a)	$1,133,253	$1,052,867		
TANGIBLE ASSETS					
Total assets		$13,030,349	$12,182,448		
Less: Goodwill		(366,156)	(365,500)		
Identifiable intangible assets		(24,058)	(32,042)		
Total tangible assets	(b)	$12,640,135	$11,784,906		
Risk-weighted assets	(c)	$9,559,816	$8,530,144		
NET INCOME ADJUSTED FOR INTANGIBLE AMORTIZATION					
Net income		$21,503	$30,602	$48,506	$59,750
Plus: Intangible amortization net of tax		1,045	1,210	2,154	2,439
Net income adjusted for intangible amortization		$22,548	$31,812	$50,660	$62,189
Period end shares outstanding	(d)	67,623,601	67,557,395		
TANGIBLE EQUITY MEASUREMENTS					
Return on average tangible equity (1)		8.08 %	12.05 %	9.16 %	11.96 %
Tangible equity/tangible assets	(a)/(b)	8.97 %	8.93 %		
Tangible equity/risk-weighted assets	(a)/(c)	11.85 %	12.34 %		
Tangible book value	(a)/(d)*1,000	$16.76	$15.58		
COMMON EQUITY TIER 1 CAPITAL (CET1)					
Total shareholders' equity		$1,523,467	$1,450,409		
AOCI-related adjustments		12,164	41,193		
CET1 adjustments and deductions:					
Goodwill net of associated deferred tax liabilities (DTLs)		(348,158)	(348,940)		
		(10,042)	(9,568)		

Other adjustments and deductions for CET1 (2)					
CET1 capital	(e)	1,177,431		1,133,094	
Additional tier 1 capital instruments plus related surplus		60,000		60,000	
Less: additional tier 1 capital deductions		(328	)	(1,571	)
Additional tier 1 capital		59,672		58,429	
Tier 1 Capital		$1,237,103		$1,191,523	
Common equity tier 1 risk-based capital ratio	(e)/(c)	12.32	%	13.28	%

(1) Calculation = ((net income adjusted for intangible amortization/number of days in period)*number of days in year)/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 our 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 consolidated financial statements and the notes related thereto in their entirety, and not to rely on any single financial measure.

The following table presents adjustments to net income and 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):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Net Income (GAAP)	$21,503	$ 0.317	$30,602	$ 0.452	$48,506	$ 0.716	$59,750	$ 0.883
Significant non-routine transactions (net of taxes):								
Non-routine early retirement program expense	5,738	0.085	—	—	5,738	0.085	—	—
Net Income adjusted for significant non-routine transactions (Non-GAAP)	$27,241	$ 0.402	$30,602	$ 0.452	$54,244	$ 0.801	$59,750	$ 0.883

	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)
Return on equity	5.72 %	7.24 %	8.44 %	n/a	6.49 %	7.25 %	8.33 %	n/a
Return on average tangible equity	8.08 %	10.14 %	12.05 %	n/a	9.16 %	10.20 %	11.96 %	n/a
Return on assets	0.67 %	0.85 %	1.01 %	n/a	0.76 %	0.85 %	0.99 %	n/a

n/a – Not Applicable

Results of Operations

Net Interest Income

Net interest income is the principal component of Trustmark's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates, as well as volume and mix changes in earning assets and interest-bearing liabilities, can materially impact net interest income. The net interest margin is computed by dividing fully taxable equivalent (FTE) net interest income by average interest-earning assets and measures how effectively Trustmark utilizes its interest-earning assets in relationship to the interest cost of funding them. The accompanying Yield/Rate Analysis 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 the three months ended June 30, 2016 remained relatively unchanged when compared to the same time period in 2015, while the net interest margin for the second quarter of 2016 decreased 25 basis points to 3.56% when compared to the second quarter of 2015. Net interest income-FTE for the six months ended June 30, 2016 decreased $2.3 million, or 1.1%, when compared with the same time period in 2015. The net interest margin for the six months ended June 30, 2016 decreased 29 basis points to 3.55% when compared to the same time period in 2015. The decrease in the net interest margin for both the three and six months ended June 30, 2016, 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, decreases in the yield on acquired loans principally due to declines in accretion income and recoveries on settlement of debt related to acquired loans and increases in interest expense for other borrowings principally due to increases in the amount of outstanding FHLB advances with the FHLB of Dallas. The net interest margin excluding acquired loans, which equals the reported net interest income-FTE excluding interest and fees on

acquired loans, as a percentage of average earning assets excluding average acquired loans, for the three and six months ended June 30, 2016 was 3.38% and 3.39%, respectively, a decrease of 11 basis points and 9 basis points, respectively, when compared to the same time periods in 2015, due to similar factors as discussed above.

Average interest-earning assets for the first six months of 2016 were $11.339 billion compared to $10.625 billion for the same time period in 2015, an increase of $714.0 million, or 6.7%. The growth in average earning assets during the first six months of 2016 was primarily due to an increase in average loans (LHFS and LHFI) of $867.8 million, or 13.2%, partially offset by a decrease in average acquired loans of $140.4 million, or 27.8%. The increase in average loans (LHFS and LHFI) was primarily attributable to the $958.1 million, or 14.9%, increase in the LHFI portfolio when balances at June 30, 2016 are compared to balances at June 30, 2015. This increase represented net growth across all of Trustmark's market regions and all categories in its LHFI portfolio, with the exception of loans secured by 1-4 family residential properties. The decline in average acquired loans was primarily attributable to pay-offs of acquired loans, principally related to the BancTrust merger.

During the first six months of 2016, interest and fees on LHFS and LHFI-FTE increased $12.8 million, or 9.1%, when compared to the same time period in 2015, due to growth in LHFI, while the yield on loans (LHFS and LHFI) fell 17 basis points to 4.17% due to downward repricing of LHFI due to the current low interest rate environment and related competitive pressures. During the first six months of 2016, interest and fees on acquired loans decreased $12.6 million, or 45.5%, compared to the same time period in 2015, due to declines in accretion income and recoveries on settlement of debt, primarily related to loans acquired in the BancTrust merger and Heritage acquisition, as acquired loans continue to pay-down as anticipated. As a result, the yield on acquired loans for the first six months of 2016 decreased to 8.33% compared to 11.05% during the first six months of 2015. As a result of these factors, interest income-FTE decreased $486 thousand, or 0.2%, when the first six months of 2016 is compared to the same time period in 2015. The impact of these changes is also illustrated by the decline in the yield on total earning assets, which fell from 4.03% for the first six months of 2015 to 3.76% for the first six months of 2016, a decrease of 27 basis points.

Average interest-bearing liabilities for the first six months of 2016 totaled $8.262 billion compared to $7.779 billion for the same time period in 2015, an increase of $482.4 million, or 6.2%. The increase in average interest-bearing liabilities was principally due to the increase in average other borrowings partially offset by a decline in average interest-bearing deposits. Average other borrowings increased $722.1 million when the first six months of 2016 is compared to the first six months of 2015, primarily reflecting increased balances of both short-term and long-term FHLB advances obtained from the FHLB of Dallas as Trustmark chose to utilize these less costly sources of funding, partially offset by the maturity of a $6.5 million FHLB advance with the FHLB of Atlanta, which was acquired in the BancTrust merger, during the fourth quarter of 2015. Average interest-bearing deposits for the first six months of 2016 decreased $282.9 million, or 4.0%, when compared to the same time period in 2015, principally due to declines in average 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.

Total interest expense for the first six months of 2016 increased $1.8 million, or 17.7%, when compared with the same time period in 2015, principally due to the increase in other interest expense. Other interest expense for the first six months of 2016 increased $1.6 million, or 47.6%, when compared to the same time period in 2015 primarily due to the increase in FHLB advances with the FHLB of Dallas, while the rate on other borrowings declined from 2.15% for the first six months of 2015 to 0.94% for the first six months of 2016. The decline in the rate on other borrowings for the first six months of 2016 was principally due to the FHLB advances outstanding during the first six months of 2016 having a much lower interest rate than those advances outstanding during the first six months of 2015. During the first six months of 2016, interest expense on federal funds purchased and securities sold under repurchase agreements increased $513 thousand, while the rate on federal funds purchased and securities sold under repurchase agreements increased 19 basis points to 0.33% when compared to the first six months of 2015. The increase in the rate on federal

funds purchased and securities sold under repurchase agreements for the first six months of 2016 was primarily due to the increase in rates by the FRB. As a result of these factors, the overall yield on interest-bearing liabilities increased 3 basis points to 0.29% when the first six months of 2016 is compared with the first six months of 2015.

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

	Three Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Federal funds sold and securities purchased under reverse repurchase agreements	$1,263	$4	1.27 %	$557	$2	1.44 %
Securities - taxable	3,336,503	19,402	2.34 %	3,398,758	19,731	2.33 %
Securities - nontaxable	134,081	1,429	4.29 %	158,503	1,688	4.27 %
Loans (LHFS and LHFI)	7,505,409	77,777	4.17 %	6,554,739	71,546	4.38 %
Acquired loans	349,740	8,051	9.26 %	482,992	12,557	10.43 %
Other earning assets	64,000	200	1.26 %	41,242	392	3.81 %
Total interest-earning assets	11,390,996	106,863	3.77 %	10,636,791	105,916	3.99 %
Cash and due from banks	271,135			272,292		
Other assets	1,240,846			1,288,507		
Allowance for loan losses, net	(83,614)			(84,331)		
Total Assets	$12,819,363			$12,113,259		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$6,730,521	3,122	0.19 %	$7,003,433	3,204	0.18 %
Federal funds purchased and securities sold under repurchase agreements	488,512	404	0.33 %	497,606	179	0.14 %
Other borrowings	1,028,393	2,428	0.95 %	241,777	1,614	2.68 %
Total interest-bearing liabilities	8,247,426	5,954	0.29 %	7,742,816	4,997	0.26 %
Noninterest-bearing demand deposits	2,927,469			2,772,741		
Other liabilities	131,627			143,201		
Shareholders' equity	1,512,841			1,454,501		
Total Liabilities and Shareholders' Equity	$12,819,363			$12,113,259		
Net Interest Margin		100,909	3.56 %		100,919	3.81 %
Less tax equivalent adjustment		4,532			3,970	
Net Interest Margin per Consolidated Statements of Income		$96,377			$96,949	

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	Six Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Federal funds sold and securities purchased under reverse repurchase agreements	$823	$5	1.22 %	$388	$2	1.04 %
Securities - taxable	3,345,209	39,488	2.37 %	3,354,784	39,317	2.36 %
Securities - nontaxable	137,883	2,926	4.27 %	163,736	3,477	4.28 %
Loans (LHFS and LHFI)	7,425,871	154,012	4.17 %	6,558,066	141,204	4.34 %
Acquired loans	364,088	15,073	8.33 %	504,440	27,635	11.05 %
Other earning assets	65,351	430	1.32 %	43,791	785	3.61 %
Total interest-earning assets	11,339,225	211,934	3.76 %	10,625,205	212,420	4.03 %
Cash and due from banks	276,524			281,222		
Other assets	1,247,062			1,295,989		
Allowance for loan losses, net	(82,376)			(83,168)		
Total Assets	$12,780,435			$12,119,248		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$6,731,528	6,160	0.18 %	$7,014,448	6,451	0.19 %
Federal funds purchased and securities sold under repurchase agreements	502,846	835	0.33 %	459,617	322	0.14 %
Other borrowings	1,027,491	4,817	0.94 %	305,411	3,263	2.15 %
Total interest-bearing liabilities	8,261,865	11,812	0.29 %	7,779,476	10,036	0.26 %
Noninterest-bearing demand deposits	2,881,876			2,757,428		
Other liabilities	132,931			136,561		
Shareholders' equity	1,503,763			1,445,783		
Total Liabilities and Shareholders' Equity	$12,780,435			$12,119,248		
Net Interest Margin		200,122	3.55 %		202,384	3.84 %
Less tax equivalent adjustment		9,005			8,043	
Net Interest Margin per Consolidated Statements of Income		$191,117			$194,341	

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 $2.6 million and $4.8 million, respectively, for the three and six months ended June 30, 2016, an increase of $1.6 million and $2.0 million, respectively, when compared to the same time periods in 2015. See the section captioned “Allowance for Loan Losses, LHFI” for further analysis of the provision for loan losses, LHFI.

Provision for Loan Losses, Acquired Loans

The provision for loan losses, acquired loans is recognized subsequent to acquisition to the extent it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when actual losses of unpaid principal incurred exceed previous loss expectations to date, or future cash flows previously expected to be collectible are no longer probable of collection. The provision for loan losses, acquired loans is reflected as a valuation allowance netted against the carrying value of the acquired loans accounted for under Federal Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." The increase in the provision for loan losses, acquired loans during the first six months of 2016 when compared to the same time period in 2015 was principally due to changes in expectations based on the periodic re-estimations performed during the period, primarily related to loans acquired from BancTrust, a decrease in charge-offs of acquired loans from both Heritage and BancTrust partially offset by an increase in charge-offs of acquired loans from Bay Bank, and a decrease in recoveries of acquired loans primarily from BancTrust.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
BancTrust	$619	$1,022	$2,355	$1,707
Bay Bank	49	(93)	(52)	(111)
Heritage	(61)	(104)	(387)	(424)
Total provision for loan losses, acquired loans	$607	$825	$1,916	$1,172

Noninterest Income

Noninterest income represented 31.5% of total revenue, before securities losses, net, for both the three and six months ended June 30, 2016, respectively, compared to 32.0% and 31.1% of total revenue, before securities losses, net, for the three and six months ended June 30, 2015, respectively. The following table provides the comparative components of noninterest income for the periods presented ($ in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Service charges on deposit accounts	$11,051	$11,920	$(869)	-7.3 %	$22,132	$23,005	$(873)	-3.8 %
Bank card and other fees	7,436	7,416	20	0.3 %	14,354	14,178	176	1.2 %
Mortgage banking, net	6,721	9,481	(2,760)	-29.1 %	15,420	18,446	(3,026)	-16.4 %
Insurance commissions	9,638	9,401	237	2.5 %	18,231	18,017	214	1.2 %
Wealth management	8,009	7,758	251	3.2 %	15,416	15,748	(332)	-2.1 %
Other, net	1,372	(433)	1,805	n/m	2,260	(1,488)	3,748	n/m
	44,227	45,543	(1,316)	-2.9 %	87,813	87,906	(93)	-0.1 %

Total Noninterest Income before securities losses, net		
Security losses, net	—	—