TRUSTMARK CORP
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

or

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

Commission file number 000-03683

Trustmark Corporation

(Exact name of registrant as specified in its charter)

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

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

(601) 208-5111

(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 31, 2016, there were 67,627,272 shares outstanding of the registrant's common stock (no par value).

Forward-Looking Statements

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Trustmark Corporation and Subsidiaries

Consolidated Balance Sheets

($ in thousands)

	(Unaudited) September 30, 2016	December 31, 2015
Assets		
Cash and due from banks (noninterest-bearing)	$383,945	$277,751
Federal funds sold and securities purchased under reverse repurchase agreements	500	250
Securities available for sale (at fair value)	2,410,947	2,345,422
Securities held to maturity (fair value: $1,173,101-2016; $1,195,367-2015)	1,143,234	1,187,818
Loans held for sale (LHFS)	242,097	160,189
Loans held for investment (LHFI)	7,499,204	7,091,385
Less allowance for loan losses, LHFI	70,871	67,619
Net LHFI	7,428,333	7,023,766
Acquired loans:		
Noncovered loans	291,825	372,711
Covered loans	3,912	17,700
Less allowance for loan losses, acquired loans	11,380	11,992
Net acquired loans	284,357	378,419
Net LHFI and acquired loans	7,712,690	7,402,185
Premises and equipment, net	190,930	195,656
Mortgage servicing rights	65,514	74,007
Goodwill	366,156	366,156
Identifiable intangible assets	22,366	27,546
Other real estate, excluding covered other real estate	64,993	77,177
Covered other real estate	—	1,651
FDIC indemnification asset	—	738
Other assets	558,166	562,350
Total Assets	$13,161,538	$12,678,896
Liabilities		
Deposits:		
Noninterest-bearing	$3,111,603	$2,998,694
Interest-bearing	6,574,098	6,589,536
Total deposits	9,685,701	9,588,230
Federal funds purchased and securities sold under repurchase agreements	514,918	441,042
Short-term borrowings	412,792	412,617
Long-term FHLB advances	751,075	501,155
Subordinated notes	49,993	49,969

Junior subordinated debt securities	61,856	61,856
Other liabilities	150,442	150,970
Total Liabilities	11,626,777	11,205,839
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,626,939 shares - 2016; 67,559,128 shares - 2015	14,090	14,076
Capital surplus	365,553	361,467
Retained earnings	1,172,193	1,142,908
Accumulated other comprehensive loss, net of tax	(17,075)	(45,394)
Total Shareholders' Equity	1,534,761	1,473,057
Total Liabilities and Shareholders' Equity	$13,161,538	$12,678,896

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Income

($ in thousands except per share data)

(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest Income				
Interest and fees on LHFS & LHFI	$76,524	$69,458	$222,555	$203,836
Interest and fees on acquired loans	6,781	11,607	21,854	39,242
Interest on securities:				
Taxable	19,351	20,264	58,839	59,581
Tax exempt	902	1,046	2,804	3,306
Interest on federal funds sold and securities purchased under reverse repurchase agreements	5	2	10	4
Other interest income	223	392	653	1,177
Total Interest Income	103,786	102,769	306,715	307,146
Interest Expense				
Interest on deposits	3,208	3,147	9,368	9,598
Interest on federal funds purchased and securities sold under repurchase agreements	411	205	1,246	527
Other interest expense	2,603	1,811	7,420	5,074
Total Interest Expense	6,222	5,163	18,034	15,199
Net Interest Income	97,564	97,606	288,681	291,947
Provision for loan losses, LHFI	4,284	2,514	9,123	5,332
Provision for loan losses, acquired loans	691	1,256	2,607	2,428
Net Interest Income After Provision for Loan Losses	92,589	93,836	276,951	284,187
Noninterest Income				
Service charges on deposit accounts	11,677	12,400	33,809	35,405
Bank card and other fees	6,756	6,964	21,110	21,142
Mortgage banking, net	7,364	7,443	22,784	25,889
Insurance commissions	10,074	9,906	28,305	27,923
Wealth management	7,571	7,790	22,987	23,538
Other, net	1,274	1,470	3,534	(18)
Security losses, net	—	—	(310)	—
Total Noninterest Income	44,716	45,973	132,219	133,879
Noninterest Expense				
Salaries and employee benefits	57,250	58,270	181,469	172,832
Services and fees	14,947	14,691	43,944	43,817
Net occupancy - premises	6,440	6,580	18,556	19,014
Equipment expense	6,063	5,877	18,053	17,754

Other real estate expense	(1,313)	3,385	61	5,421
FDIC assessment expense	2,911	2,559	8,681	8,114
Other expense	11,610	12,198	36,267	36,090
Total Noninterest Expense	97,908	103,560	307,031	303,042
Income Before Income Taxes	39,397	36,249	102,139	115,024
Income taxes	8,415	7,819	22,651	26,844
Net Income	$30,982	$28,430	$79,488	$88,180
Earnings Per Share				
Basic	$0.46	$0.42	$1.18	$1.31
Diluted	$0.46	$0.42	$1.17	$1.30
Dividends Per Share	$0.23	$0.23	$0.69	$0.69

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income per consolidated statements of income	$30,982	$28,430	$79,488	$88,180
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on available for sale securities and transferred securities:				
Unrealized holding (losses) gains arising during the period	(7,816)	11,035	19,796	8,470
Less: adjustment for net losses realized in net income	—	—	191	—
Change in net unrealized holding loss on securities transferred to held to maturity	1,653	1,036	5,171	2,931
Pension and other postretirement benefit plans:				
Net change in prior service costs	39	39	116	116
Recognized net loss due to lump sum settlement	286	373	1,935	926
Change in net actuarial loss	573	751	1,658	2,256
Derivatives:				
Change in the accumulated loss on effective cash flow hedge derivatives	257	(751)	(840)	(1,185)
Less: adjustment for loss realized in net income	97	130	292	390
Other comprehensive (loss) income, net of tax	(4,911)	12,613	28,319	13,904
Comprehensive income	$26,071	$41,043	$107,807	$102,084

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

($ in thousands)

(Unaudited)

	2016	2015
Balance, January 1,	$1,473,057	$1,419,940
Net income per consolidated statements of income	79,488	88,180
Other comprehensive income, net of tax	28,319	13,904
Common stock dividends paid	(46,983)	(46,952)
Common stock issued-net, long-term incentive plan	(992)	(842)
Repurchase and retirement of common stock	(750)	—
Excess tax expense from stock-based compensation arrangements	(119)	(212)
Compensation expense, long-term incentive plan	2,741	2,738
Balance, September 30,	$1,534,761	$1,476,756

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands)

(Unaudited)

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

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

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

Note 2 – Securities Available for Sale and Held to Maturity

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

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

Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	247,689	6,945	(21)	254,613	198,827	6,921	(108)	205,640
Total	$2,372,720	$40,078	$(1,851)	$2,410,947	$1,143,234	$30,039	$(172)	$1,173,101
December 31, 2015								
U.S. Government agency obligations								
Issued by U.S. Government agencies	$68,314	$555	$(734)	$68,135	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	258	23	—	281	101,782	3,282	—	105,064
Obligations of states and political subdivisions	134,719	3,922	(32)	138,609	55,892	2,918	—	58,810
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	25,602	399	(189)	25,812	17,363	342	(49)	17,656
Issued by FNMA and FHLMC	222,899	2,956	(313)	225,542	10,368	311	—	10,679
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,584,338	9,541	(11,019)	1,582,860	820,012	4,951	(4,742)	820,221
Commercial mortgage-backed securities								
	278,429	2,689	(1,892)	279,226	182,401	1,700	(1,164)	182,937

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

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During 2013, Trustmark reclassified approximately $1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities totaled approximately $46.6 million ($28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. At September 30, 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $25.7 million ($15.8 million, net of tax).

Temporarily Impaired Securities

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

	Less than 12 Months		12 Months or More		Total	
September 30, 2016	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Government agency obligations						
Issued by U.S. Government agencies	$10,548	$(86)	$30,728	$(421)	$41,276	$(507)
Obligations of states and political subdivisions	7,495	(13)	969	(2)	8,464	(15)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	9,072	(50)	249	(4)	9,321	(54)
Issued by FNMA and FHLMC	100,191	(166)	—	—	100,191	(166)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	72,256	(154)	98,118	(998)	170,374	(1,152)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	10,512	(21)	5,815	(108)	16,327	(129)
Total	$210,074	$(490)	$135,879	$(1,533)	$345,953	$(2,023)
December 31, 2015						
U.S. Government agency obligations						
Issued by U.S. Government agencies	$18,924	$(81)	$30,591	$(653)	$49,515	$(734)
Obligations of states and political subdivisions	4,289	(12)	2,842	(20)	7,131	(32)
Mortgage-backed securities						

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

The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at September 30, 2016. There were no other-than-temporary impairments for the three and nine months ended September 30, 2016 and 2015.

Security Gains and Losses

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

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

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

Securities Pledged

Securities with a carrying value of $1.826 billion and $2.157 billion at September 30, 2016 and December 31, 2015, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At both September 30, 2016 and December 31, 2015, none of these securities were pledged under the Federal Reserve Discount Window program to provide additional contingency funding capacity.

Contractual Maturities

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

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$32,173	$32,377	$5,845	$5,845
Due after one year through five years	99,840	103,180	27,025	28,099
Due after five years through ten years	8,263	8,332	23,703	25,577
Due after ten years	39,725	39,269	—	—
	180,001	183,158	56,573	59,521
Mortgage-backed securities	2,192,719	2,227,789	1,086,661	1,113,580
Total	$2,372,720	$2,410,947	$1,143,234	$1,173,101

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

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

	September 30, 2016	December 31, 2015
Loans secured by real estate:		
Construction, land development and other land	$766,685	$824,723
Secured by 1-4 family residential properties	1,592,453	1,649,501
Secured by nonfarm, nonresidential properties	1,916,153	1,736,476
Other real estate secured	317,680	211,228
Commercial and industrial loans	1,421,382	1,343,211
Consumer loans	170,073	169,135
State and other political subdivision loans	875,973	734,615
Other loans	438,805	422,496
LHFI	7,499,204	7,091,385
Less allowance for loan losses, LHFI	70,871	67,619
Net LHFI	$7,428,333	$7,023,766

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At September 30, 2016, Trustmark's geographic loan distribution was concentrated primarily in its five key market regions: Alabama, Florida, Mississippi, Tennessee and Texas. Accordingly, the ultimate collectability of a substantial portion of these loans is susceptible to changes in market conditions in these areas.

Nonaccrual/Impaired LHFI

At September 30, 2016 and December 31, 2015, the carrying amounts of nonaccrual LHFI were $54.4 million and $55.3 million, respectively. Included in these amounts were $3.7 million and $7.4 million, respectively, of nonaccrual LHFI classified as troubled debt restructurings (TDRs). No material interest income was recognized in the income statement on nonaccrual LHFI for each of the periods ended September 30, 2016 and 2015.

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

At September 30, 2016 and December 31, 2015, specifically evaluated impaired LHFI totaled $28.6 million and $26.5 million, respectively. Trustmark's specifically evaluated impaired LHFI are primarily collateral dependent loans. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or as is value of the collateral, normally from recently received and reviewed appraisals. Current appraisals are ordered on an annual basis based on the inspection date. Appraisals are obtained from state-certified appraisers and are based on certain assumptions, which may include construction or development status and the highest and best use of the property. These appraisals are reviewed by Trustmark's Appraisal Review Department to ensure they are acceptable, and values are adjusted down for costs associated with asset disposal. Once this estimated net realizable value has been determined, the value used in the impairment assessment is updated. At the time a specifically evaluated impaired LHFI is deemed to be impaired, the full difference between book value and the most likely estimate of the collateral's net realizable value is charged off. Charge-offs related to specifically evaluated impaired LHFI totaled $5.0 million and $9.7 million for the first nine months of 2016 and 2015, respectively. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded. At September 30, 2016 and December 31, 2015, reserves related to specifically evaluated impaired LHFI totaled $4.5 million and $7.0 million, respectively. Provision recapture on specifically evaluated impaired LHFI totaled $2.0 million for the first nine months of 2016 compared to provision expense of $4.5 million for the first nine months of 2015.

At September 30, 2016 and December 31, 2015, impaired LHFI, excluding the specifically evaluated impaired LHFI, totaled $25.8 million and $28.8 million, respectively. In addition, these impaired LHFI had allocated allowance for loan losses of $2.3 million and $2.0 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired LHFI for each of the periods ended September 30, 2016 and 2015.

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

September 30, 2016
LHFI Evaluated for Impairment

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

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

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

	September 30, 2016					
	LHFI					
	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Total Carrying Amount	Related Allowance	Average Recorded Investment
Loans secured by real estate:						
Construction, land development and other land	$8,186	$ 3,113	$ 1,611	$4,724	$ 453	$ 5,424
Secured by 1-4 family residential properties	25,160	495	19,612	20,107	1,514	21,593
Secured by nonfarm, nonresidential properties	11,633	1,312	9,001	10,313	2,316	14,058
Other real estate secured	1,782	1,000	731	1,731	90	938
Commercial and industrial loans	18,203	12,055	4,470	16,525	2,305	12,073
Consumer loans	193	—	189	189	2	111
State and other political subdivision loans	—	—	—	—	—	—
Other loans	966	—	821	821	154	667
Total	$66,123	$ 17,975	$ 36,435	$54,410	$ 6,834	$ 54,864

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

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

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

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310. Accordingly, Trustmark measures any loss on the restructuring in accordance with that guidance. A TDR in which Trustmark receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, is accounted for in accordance with FASB ASC Subtopic 310-40, "Troubled Debt Restructurings by Creditors." Thus, the loan is treated as if assets have been received in satisfaction of the loan and reported as a foreclosed asset. At September 30, 2016 and December 31, 2015, Trustmark held $880 thousand and $1.0 million, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFI classified as TDRs. There were no consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings at September 30, 2016 compared to $83 thousand at December 31, 2015.

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

At September 30, 2016 and 2015, LHFI classified as TDRs totaled $3.7 million and $11.2 million, respectively, and were comprised of credits with interest-only payments for an extended period of time which totaled $1.6 million and $7.5 million, respectively. The remaining TDRs at September 30, 2016 and 2015 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions.

For TDRs, Trustmark had a related loan loss allowance of $31 thousand and $1.2 million at September 30, 2016 and 2015, respectively. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. Specific charge-offs related to TDRs for the nine months ended September 30, 2016 were $ 1.0 million compared to $806 thousand for the nine months ended September 30, 2015.

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

	Three Months Ended September 30,					
	2016			2015		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Loans secured by 1-4 family residential properties	—	$ —	$ —	2	$ 35	$ 35

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

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

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

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

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

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

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

Credit Quality Indicators

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

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

- Credit File Completeness and Financial Statement Exceptions – evaluates the quality and condition of credit files in terms of content, completeness and organization and focuses on efforts to obtain and document sufficient information to determine the quality and status of credits. Also included is an evaluation of the systems/procedures used to insure compliance with policy.
- Underwriting – evaluates whether credits are adequately analyzed, appropriately structured and properly approved within loan policy requirements. A properly approved credit is approved by adequate authority in a timely manner with all conditions of approval fulfilled. Total policy exceptions measure the level of underwriting and other policy exceptions within a loan portfolio.

- Collateral Documentation – focuses on the adequacy of documentation to perfect Trustmark's collateral position and substantiate collateral value. Collateral exceptions measure the level of documentation exceptions within a loan portfolio. Collateral exceptions occur when certain collateral documentation is either not present, is not considered current or has expired.
- Compliance with Law – focuses on underwriting, documentation, approval and reporting in compliance with banking laws and regulations. Primary emphasis is directed to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and Regulation O requirements.

Commercial Credits

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

- Risk Rate (RR) 1 through RR 6 – Grades one through six represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risk measured by using a variety of credit risk criteria such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.
- Other Assets Especially Mentioned (Special Mention) - (RR 7) – a loan that has a potential weakness that if not corrected will lead to a more severe rating. This rating is for credits that are currently protected but potentially weak because of an adverse feature or condition that if not corrected will lead to a further downgrade.
- Substandard (RR 8) – a loan that has at least one identified weakness that is well defined. This rating is for credits where the primary sources of repayment are not viable at the time of evaluation or where either the capital or collateral is not adequate to support the loan and the secondary means of repayment do not provide a sufficient level of support to offset the identified weakness. Loss potential exists in the aggregate amount of substandard loans but does not necessarily exist in individual loans.
- Doubtful (RR 9) – a loan with an identified weakness that does not have a valid secondary source of repayment. Generally these credits have an impaired primary source of repayment and secondary sources are not sufficient to prevent a loss in the credit. The exact amount of the loss has not been determined at this time.
- Loss (RR 10) – a loan or a portion of a loan that is deemed to be uncollectible.

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

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

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

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

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

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

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

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

Consumer Credits

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

Trustmark monitors the levels and severity of past due consumer LHFI on a daily basis through its collection activities. A detailed assessment of consumer LHFI delinquencies is performed monthly at both a product and market level by delivery channel, which incorporates the perceived level of risk at time of underwriting. Trustmark also monitors its consumer LHFI delinquency trends by comparing them to quarterly industry averages.

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

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

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

	Consumer LHFI					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual	Subtotal	Total LHFI
Loans secured by real estate:						
Construction, land development and other land	$60,546	$176	$ —	$ 467	$61,189	$766,685
Secured by 1-4 family residential properties	1,435,347	8,173	717	16,654	1,460,891	1,592,453
Secured by nonfarm, nonresidential properties	759	—	—	—	759	1,916,153
Other real estate secured	865	—	—	—	865	317,680
Commercial and industrial loans	—	—	—	—	—	1,421,382
Consumer loans	167,817	1,845	218	193	170,073	170,073
State and other political subdivision loans	—	—	—	—	—	875,973
Other loans	6,188	—	—	—	6,188	438,805
Total	$1,671,522	$10,194	$ 935	$ 17,314	$1,699,965	$7,499,204

	December 31, 2015 Commercial LHFI				
	Pass - Categories 1-6	Special Mention - Category 7	Substandard - Category 8	Doubtful - Category 9	Subtotal
Loans secured by real estate:					
Construction, land development and other land	$746,227	$—	$ 15,637	$ 529	$762,393
Secured by 1-4 family residential properties	125,268	345	7,525	190	133,328
Secured by nonfarm, nonresidential properties	1,680,846	2,031	52,485	361	1,735,723
Other real estate secured	205,097	—	4,768	—	209,865
Commercial and industrial loans	1,295,760	9,473	37,284	694	1,343,211
Consumer loans	—	—	—	—	—

State and other political subdivision loans	713,616	12,478	8,521	—	734,615
Other loans	414,089	183	2,663	375	417,310
Total	$5,180,903	$24,510	$ 128,883	$ 2,149	$5,336,445

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

Past Due LHFI

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

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

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

	December 31, 2015						
	Past Due						
	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 $25.6 million and $21.8 million at September 30, 2016 and December 31, 2015, respectively. LHFS past due 90 days or more are serviced loans eligible for repurchase, which are fully guaranteed by the Government National Mortgage Association (GNMA). GNMA optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as held for sale with the offsetting liability being reported as short-term borrowings.

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

Allowance for Loan Losses, LHFI

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

Commercial Purpose LHFI

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

Commercial Construction LHFI

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

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

Qualitative factors used in the allowance methodology include the following:

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

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

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

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

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

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

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

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

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

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

	Three Months Ended September	Nine Months Ended September 30,

	30,			
	2016	2015	2016	2015
Balance at beginning of period	$71,796	$71,166	$67,619	$69,616
Loans charged-off	(8,279)	(11,406)	(14,893)	(18,688)
Recoveries				