TRUSTMARK CORP
Form 10-Q
May 07, 2018

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 March 31, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 27, 2018, there were 67,782,151 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 potential market impacts of efforts by the Federal Reserve Board to reduce the size of its balance sheet, 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 credit, securities, and/or commodity 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, greater than expected costs or difficulties related to the integration of acquisitions or new products and lines of business, cyber-attacks and other breaches which could affect our information system security, natural disasters, environmental disasters, acts of war or terrorism, and other risks described in our filings with the Securities and Exchange Commission.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Trustmark Corporation and Subsidiaries

Consolidated Balance Sheets

($ in thousands)

	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Cash and due from banks (noninterest-bearing)	$315,276	$335,768
Federal funds sold and securities purchased under reverse repurchase agreements	112	615
Securities available for sale (at fair value)	2,097,497	2,238,635
Securities held to maturity (fair value: $998,043-2018; $1,046,247-2017)	1,023,975	1,056,486
Loans held for sale (LHFS)	163,882	180,512
Loans held for investment (LHFI)	8,513,985	8,569,967
Less allowance for loan losses, LHFI	81,235	76,733
Net LHFI	8,432,750	8,493,234
Acquired loans	215,476	261,517
Less allowance for loan losses, acquired loans	4,294	4,079
Net acquired loans	211,182	257,438
Net LHFI and acquired loans	8,643,932	8,750,672
Premises and equipment, net	178,584	179,339
Mortgage servicing rights	94,850	84,269
Goodwill	379,627	379,627
Identifiable intangible assets, net	14,963	16,360
Other real estate	39,554	43,228
Other assets	511,187	532,442
Total Assets	$13,463,439	$13,797,953
Liabilities		
Deposits:		
Noninterest-bearing	$3,004,442	$2,978,074
Interest-bearing	7,971,359	7,599,438
Total deposits	10,975,801	10,577,512
Federal funds purchased and securities sold under repurchase agreements	274,833	469,827
Short-term borrowings	442,689	971,049
Long-term Federal Home Loan Bank (FHLB) advances	929	946
Junior subordinated debt securities	61,856	61,856
Other liabilities	137,194	145,062
Total Liabilities	11,893,302	12,226,252
Shareholders' Equity		

Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 67,775,068 shares - 2018; 67,746,094 shares - 2017	14,121	14,115
Capital surplus	366,021	369,124
Retained earnings	1,257,881	1,228,187
Accumulated other comprehensive loss, net of tax	(67,886)	(39,725)
Total Shareholders' Equity	1,570,137	1,571,701
Total Liabilities and Shareholders' Equity	$13,463,439	$13,797,953

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Income

($ in thousands except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Interest Income		
Interest and fees on LHFS & LHFI	$91,670	$79,407
Interest and fees on acquired loans	4,877	5,189
Interest on securities:		
Taxable	17,506	19,197
Tax exempt	651	845
Interest on federal funds sold and securities purchased under reverse repurchase agreements	2	1
Other interest income	934	267
Total Interest Income	115,640	104,906
Interest Expense		
Interest on deposits	9,491	3,945
Interest on federal funds purchased and securities sold under repurchase agreements	662	698
Other interest expense	3,394	2,673
Total Interest Expense	13,547	7,316
Net Interest Income	102,093	97,590
Provision for loan losses, LHFI	3,961	2,762
Provision for loan losses, acquired loans	150	(1,605)
Net Interest Income After Provision for Loan Losses	97,982	96,433
Noninterest Income		
Service charges on deposit accounts	10,857	10,832
Bank card and other fees	6,626	6,500
Mortgage banking, net	11,265	10,185
Insurance commissions	9,419	9,212
Wealth management	7,567	7,413
Other, net	1,059	1,891
Security gains (losses), net	—	—
Total Noninterest Income	46,793	46,033
Noninterest Expense		
Salaries and employee benefits	58,475	55,389
Services and fees	15,746	15,332
Net occupancy - premises	6,502	6,238
Equipment expense	6,099	5,998

Other real estate expense	866	1,759
FDIC assessment expense	2,995	2,640
Other expense	11,782	14,701
Total Noninterest Expense	102,465	102,057
Income Before Income Taxes	42,310	40,409
Income taxes	5,480	9,161
Net Income	$36,830	$31,248
Earnings Per Share		
Basic	$0.54	$0.46
Diluted	$0.54	$0.46
Dividends Per Share	$0.23	$0.23

See notes to consolidated financial statements.

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Trustmark Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income per consolidated statements of income	$36,830	$31,248
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on available for sale securities and transferred securities:		
Net unrealized holding gains (losses) arising during the period	(21,030)	1,411
Change in net unrealized holding loss on securities transferred to held to maturity	724	761
Pension and other postretirement benefit plans:		
Net change in prior service costs	47	39
Recognized net loss due to lump sum settlement	31	—
Change in net actuarial loss	276	486
Derivatives:		
Change in the accumulated gain (loss) on effective cash flow hedge derivatives	320	35
Less: adjustment for (gain) loss realized in net income	(5)	61
Other comprehensive income (loss), net of tax	(19,637)	2,793
Comprehensive income	$17,193	$34,041

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Condensed Statements of Changes in Shareholders' Equity

($ in thousands)

(Unaudited)

	2018	2017
Balance, January 1,	$1,571,701	$1,520,208
Net income per consolidated statements of income	36,830	31,248
Other comprehensive income (loss), net of tax	(19,637)	2,793
Common stock dividends paid	(15,660)	(15,697)
Common stock issued-net, long-term incentive plan	(1,380)	(1,543)
Repurchase and retirement of common stock	(2,502)	—
Compensation expense, long-term incentive plan	785	952
Balance, March 31,	$1,570,137	$1,537,961

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Operating Activities		
Net income per consolidated statements of income	$36,830	$31,248
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, net	4,111	1,157
Depreciation and amortization	9,376	9,031
Net amortization of securities	2,582	2,612
Gains on sales of loans, net	(4,585)	(3,550)
Deferred income tax provision	3,300	3,900
Proceeds from sales of loans held for sale	241,778	263,614
Purchases and originations of loans held for sale	(223,799)	(263,232)
Originations of mortgage servicing rights	(3,567)	(3,440)
Earnings on bank-owned life insurance	(1,233)	(1,227)
Net change in other assets	8,721	6,375
Net change in other liabilities	(7,379)	(6,693)
Other operating activities, net	(8,362)	90
Net cash provided by operating activities	57,773	39,885
Investing Activities		
Proceeds from maturities, prepayments and calls of securities held to maturity	33,102	43,854
Proceeds from maturities, prepayments and calls of securities available for sale	112,280	119,742
Purchases of securities held to maturity	—	(40,556)
Purchases of securities available for sale	(1,390)	(128,430)
Net change in federal funds sold and securities purchased under reverse repurchase agreements	503	—
Net change in member bank stock	16,415	(144)
Net change in loans	100,619	(102,573)
Purchases of premises and equipment	(2,862)	(6,319)
Proceeds from sales of premises and equipment	4	5,050
Proceeds from sales of other real estate	5,310	6,856
Purchases of software	(841)	(1,065)
Investments in tax credit and other partnerships	(17)	(17)
Net cash provided by (used in) investing activities	263,123	(103,602)
Financing Activities		
Net change in deposits	398,289	48,460

Net change in federal funds purchased and securities sold under repurchase agreements	(194,994)	(15,482)
Net change in short-term borrowings	(525,124)	99,879
Payments on long-term FHLB advances	(17)	(16)
Common stock dividends	(15,660)	(15,697)
Repurchase and retirement of common stock	(2,502)	—
Shares withheld to pay taxes, long-term incentive plan	(1,380)	(1,543)
Net cash provided by (used in) financing activities	(341,388)	115,601
Net change in cash and cash equivalents	(20,492)	51,884
Cash and cash equivalents at beginning of period	335,768	327,706
Cash and cash equivalents at end of period	$315,276	$379,590

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 199 offices at March 31, 2018 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. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

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 2017 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 2018 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 – Business Combinations

On April 7, 2017, Trustmark completed its merger with RB Bancorporation (Reliance), the holding company for Reliance Bank, which had seven offices serving the Huntsville, Alabama metropolitan service area (MSA). Reliance Bank was merged into Trustmark National Bank simultaneously with the merger of Trustmark and Reliance. Under the terms of the Merger Agreement dated November 14, 2016, Trustmark paid $22.00 in cash for each share of Reliance common stock outstanding, which represented payment to Reliance common shareholders of approximately $23.7 million. In addition, Trustmark paid off Reliance Preferred Stock of $1.1 million bringing the total consideration paid to $24.8 million.

The merger with Reliance was consistent with Trustmark's strategic plan to selectively expand the Trustmark franchise and enhance the Trustmark franchise in north Alabama.

This merger was accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, "Business Combinations." Accordingly, the assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the merger date.

The statement of assets purchased and liabilities assumed in the Reliance merger is presented below at their estimated fair values as of the merger date of April 7, 2017 ($ in thousands):

Assets:	
Cash and due from banks	$5,013
Federal funds sold and securities purchased under reverse repurchase agreements	6,900
Securities	54,843
Acquired loans	117,447
Premises and equipment, net	3,700
Identifiable intangible assets	1,850
Other real estate	475
Other assets	6,037
Total assets	196,265
Liabilities:	
Deposits	166,158
Other borrowings	17,469
Other liabilities	1,322
Total liabilities	184,949
Net identifiable assets acquired at fair value	11,316
Goodwill	13,471
Total consideration paid	$24,787

The excess of the consideration paid over the estimated fair value of the net assets acquired was $13.5 million, which was recorded as goodwill under FASB ASC Topic 805. The identifiable intangible assets acquired represent the core deposit intangible at fair value at the merger date. The core deposit intangible is being amortized on an accelerated basis over the estimated useful life, currently expected to be approximately ten years.

Loans acquired from Reliance were evaluated under a fair value process. Loans with evidence of deterioration in credit quality and for which it was probable at acquisition that Trustmark would not be able to collect all contractually required payments are referred to as acquired impaired loans and accounted for in accordance with FASB ASC Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” See Note 5 – Acquired Loans for additional information on acquired loans.

The operations of Reliance are included in Trustmark’s operating results from April 7, 2017 and did not have a material impact on Trustmark’s results of operations. During the second quarter of 2017, Trustmark included merger transaction expenses in other noninterest expense totaling $3.2 million (change in control expense of $1.3 million; professional fees, contract termination and other expenses of $1.9 million).

Fair Value of Acquired Financial Instruments

For financial instruments measured at fair value, Trustmark utilized inputs within Level 2 of the fair value hierarchy to determine the fair value of securities available for sale (included in securities above), time deposits (included in deposits above) and FHLB advances (included in other borrowings above). Level 3 inputs were used to determine the fair value of acquired loans, identifiable intangible assets and other real estate. The methodology and significant assumptions used in estimating the fair values of these financial assets and liabilities are as follows:

Securities Available for Sale

Estimated fair values for securities available for sale are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Acquired Loans

Fair value of acquired loans is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of default and current market rates.

Identifiable Intangible Assets

The fair value assigned to the identifiable intangible assets, in this case the core deposit intangible, represents the future economic benefits of the potential cost savings from acquiring core deposits in the merger compared to the cost of obtaining alternative funding from market sources.

Other Real Estate

Other real estate was initially recorded at its estimated fair value on the merger date based on independent appraisals less estimated selling costs.

Time Deposits

Time deposits were valued by projecting expected cash flows into the future based on each account’s contracted rate and then determining the present value of those expected cash flows using current rates for deposits with similar maturities.

FHLB Advances

FHLB advances were valued by projecting expected cash flows into the future based on each advance’s contracted rate and then determining the present value of those expected cash flows using current rates for advances with similar maturities.

Please refer to Note 17 – Fair Value for more information on Trustmark’s classification of financial instruments based on valuation inputs within the fair value hierarchy.

Note 3 – Securities Available for Sale and Held to Maturity

The following tables are a summary of the amortized cost and estimated fair value of securities available for sale and held to maturity at March 31, 2018 and December 31, 2017 ($ in thousands):

	Securities Available for Sale				Securities Held to Maturity			
March 31, 2018	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	$40,838	$234	$(954)	$40,118	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	254	9	—	263	3,703	73	—	3,776
Obligations of states and political subdivisions	74,547	548	(82)	75,013	46,011	706	(87)	46,630
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	64,707	157	(2,407)	62,457	12,974	60	(243)	12,791
Issued by FNMA and FHLMC	789,713	309	(22,346)	767,676	128,517	60	(3,398)	125,179
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	977,745	287	(23,495)	954,537	653,325	154	(20,130)	633,349

Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	201,227	265	(4,059)	197,433	179,445	171	(3,298)	176,318
Total	$2,149,031	$1,809	$(53,343)	$2,097,497	$1,023,975	$1,224	$(27,156)	$998,043
December 31, 2017								
U.S. Government agency obligations								
Issued by U.S. Government agencies	$45,508	$310	$(800)	$45,018	$—	$—	$—	$—
Issued by U.S. Government sponsored agencies	255	12	—	267	3,692	182	—	3,874
Obligations of states and political subdivisions	78,433	850	(54)	79,229	46,039	1,044	(59)	47,024
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	66,634	215	(1,103)	65,746	13,539	207	(73)	13,673
Issued by FNMA and FHLMC	824,872	827	(11,249)	814,450	133,975	210	(1,559)	132,626
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	1,028,176	1,808	(13,194)	1,016,790	678,926	1,209	(11,065)	669,070
Commercial mortgage-backed securities								
	218,252	426	(1,543)	217,135	180,315	1,102	(1,437)	179,980

Issued or guaranteed by FNMA, FHLMC or GNMA								
Total	$2,262,130	$4,448	$(27,943)	$2,238,635	$1,056,486	$3,954	$(14,193)	$1,046,247

During 2013, Trustmark reclassified approximately $1.099 billion of securities available for sale to securities held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held to maturity. At the date of transfer, the net unrealized holding loss on the available for sale securities totaled approximately $46.6 million ($28.8 million, net of tax). The net unrealized holding loss is amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. At March 31, 2018, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $18.5 million ($13.9 million, net of tax).

Temporarily Impaired Securities

The tables below include securities with gross unrealized losses segregated by length of impairment at March 31, 2018 and December 31, 2017 ($ in thousands):

	Less than 12 Months		12 Months or More		Total	
March 31, 2018	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	$5,122	$(160)	$26,702	$(794)	$31,824	$(954)
Obligations of states and political subdivisions	18,433	(132)	3,859	(37)	22,292	(169)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	36,439	(1,022)	31,717	(1,628)	68,156	(2,650)
Issued by FNMA and FHLMC	510,587	(12,288)	347,857	(13,456)	858,444	(25,744)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	1,021,035	(20,203)	506,338	(23,422)	1,527,373	(43,625)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	275,024	(5,352)	54,312	(2,005)	329,336	(7,357)
Total	$1,866,640	$(39,157)	$970,785	$(41,342)	$2,837,425	$(80,499)
December 31, 2017						
U.S. Government agency obligations						
Issued by U.S. Government agencies	$5,214	$(113)	$29,432	$(687)	$34,646	$(800)
Obligations of states and political subdivisions	19,345	(80)	3,874	(33)	23,219	(113)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	37,304	(351)	29,446	(825)	66,750	(1,176)
Issued by FNMA and FHLMC	506,410	(4,219)	369,060	(8,589)	875,470	(12,808)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or	755,013	(7,668)	534,955	(16,591)	1,289,968	(24,259)

GNMA						
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	230,898	(1,719)	55,288	(1,261)	286,186	(2,980)
Total	$ 1,554,184	$ (14,150)	$ 1,022,055	$ (27,986)	$ 2,576,239	$ (42,136)

The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because Trustmark does not intend to sell these securities and it is more likely than not that Trustmark will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Trustmark does not consider these investments to be other-than-temporarily impaired at March 31, 2018. There were no other-than-temporary impairments for the three months ended March 31, 2018 and 2017.

Security Gains and Losses

There were no gross realized gains or losses that resulted from calls and dispositions of securities for the three months ended March 31, 2018 and 2017.

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

Securities Pledged

Securities with a carrying value of $2.211 billion and $1.834 billion at March 31, 2018 and December 31, 2017, respectively, were pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as permitted by law. At both March 31, 2018 and December 31, 2017, none of these securities were pledged under the Federal Reserve Discount Window program to provide additional contingency funding capacity.

Contractual Maturities

The amortized cost and estimated fair value of securities available for sale and held to maturity at March 31, 2018, 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	$28,222	$28,280	$155	$155
Due after one year through five years	54,638	55,290	40,569	41,118
Due after five years through ten years	3,786	3,745	8,990	9,133
Due after ten years	28,993	28,079	—	—
	115,639	115,394	49,714	50,406
Mortgage-backed securities	2,033,392	1,982,103	974,261	947,637
Total	$2,149,031	$2,097,497	$1,023,975	$998,043

Note 4 – Loans Held for Investment (LHFI) and Allowance for Loan Losses, LHFI

At March 31, 2018 and December 31, 2017, LHFI consisted of the following ($ in thousands):

	March 31, 2018	December 31, 2017
Loans secured by real estate:		
Construction, land development and other land	$986,188	$987,624
Secured by 1-4 family residential properties	1,698,885	1,675,311
Secured by nonfarm, nonresidential properties	2,257,899	2,193,823
Other real estate secured	425,664	517,956
Commercial and industrial loans	1,561,967	1,570,345
Consumer loans	168,469	171,918
State and other political subdivision loans	936,014	952,483
Other loans	478,899	500,507
LHFI	8,513,985	8,569,967
Allowance for loan losses, LHFI	(81,235)	(76,733)
Net LHFI	$8,432,750	$8,493,234

Loan Concentrations

Trustmark does not have any loan concentrations other than those reflected in the preceding table, which exceed 10% of total LHFI. At March 31, 2018, 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 and Past Due LHFI

At March 31, 2018 and December 31, 2017, the carrying amounts of nonaccrual LHFI were $68.7 million and $67.6 million, respectively. Included in these amounts were $25.8 million and $23.2 million, respectively, of nonaccrual LHFI classified as troubled debt restructurings (TDRs). No material interest income was recognized in the income statement on nonaccrual LHFI for each of the periods ended March 31, 2018 and 2017.

The following tables provide an aging analysis of past due and nonaccrual LHFI by loan type at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018						
	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	$366	$152	$ 71	$589	$ 1,529	$984,070	$986,188
Secured by 1-4 family residential properties	5,899	1,021	1,076	7,996	18,601	1,672,288	1,698,885
Secured by nonfarm, nonresidential properties	378	29	—	407	14,028	2,243,464	2,257,899
Other real estate secured	145	—	—	145	209	425,310	425,664
Commercial and industrial loans	822	18	25	865	32,891	1,528,211	1,561,967
Consumer loans	1,298	271	247	1,816	174	166,479	168,469
State and other political subdivision loans	—	—	—	—	—	936,014	936,014
Other loans	64	—	—	64	1,264	477,571	478,899
Total	$8,972	$1,491	$ 1,419	$11,882	$ 68,696	$8,433,407	$8,513,985

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

	December 31, 2017						
	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	$391	$1	$ —	$392	$ 2,105	$985,127	$987,624
Secured by 1-4 family residential properties	6,412	2,084	1,917	10,413	19,022	1,645,876	1,675,311
Secured by nonfarm, nonresidential properties	2,319	256	—	2,575	12,608	2,178,640	2,193,823
Other real estate secured	—	—	—	—	212	517,744	517,956
Commercial and industrial loans	759	1,233	12	2,004	33,338	1,535,003	1,570,345
Consumer loans	2,141	255	242	2,638	135	169,145	171,918
State and other political subdivision loans	350	39	—	389	—	952,094	952,483
Other loans	18	4	—	22	155	500,330	500,507
Total	$12,390	$3,872	$ 2,171	$18,433	$ 67,575	$8,483,959	$8,569,967

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

Impaired LHFI

Trustmark's individually evaluated impaired LHFI include all commercial nonaccrual relationships of $500 thousand or more, which are specifically reviewed for impairment and deemed impaired, and all LHFI classified as TDRs in accordance with FASB ASC Topic 310-10-50-20, and 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 or more often if market conditions necessitate. 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 LHFI that has been individually evaluated for impairment 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. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded.

No material interest income was recognized in the income statement on impaired LHFI for each of the periods ended March 31, 2018 and 2017.

At March 31, 2018 and December 31, 2017, individually evaluated impaired LHFI consisted of the following ($ in thousands):

	March 31, 2018					
	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	$1,157	$ 743	$ 189	$932	$ 64	$ 1,427
Secured by 1-4 family residential properties	4,630	719	2,977	3,696	42	4,194
Secured by nonfarm, nonresidential properties	16,333	4,655	7,531	12,186	1,041	10,254
Other real estate secured	—	—	—	—	—	—
Commercial and industrial loans	37,306	16,018	15,681	31,699	6,771	27,216
Consumer loans	1	—	1	1	—	5
State and other political subdivision loans	—	—	—	—	—	—
Other loans	1,206	—	1,116	1,116	1,116	721
Total	$60,633	$ 22,135	$ 27,495	$49,630	$ 9,034	$ 43,817

	December 31, 2017					
	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	$1,704	$ 1,206	$ 199	$1,405	$ 75	$ 1,923
Secured by 1-4 family residential properties	6,031	160	4,576	4,736	1,331	4,693
Secured by nonfarm, nonresidential properties	15,205	10,027	396	10,423	165	8,321
Other real estate secured	—	—	—	—	—	—
Commercial and industrial loans	36,874	31,281	518	31,799	131	22,734
Consumer loans	17	—	17	17	—	9
State and other political subdivision loans	—	—	—	—	—	—
Other loans	556	—	556	556	41	325
Total	$60,387	$ 42,674	$ 6,262	$48,936	$ 1,743	$ 38,005

Troubled Debt Restructurings

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

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310. Accordingly, Trustmark measures any loss on the restructuring in accordance with that guidance. A TDR in which Trustmark receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, is accounted for in accordance with FASB ASC Subtopic 310-40, "Troubled Debt Restructurings by Creditors." Thus, the loan is treated as if assets have been received in satisfaction of the loan and reported as a foreclosed asset. At March 31, 2018 and December 31, 2017, Trustmark held $502 thousand and $366 thousand, respectively, of foreclosed residential real estate as a result of foreclosure or in substance repossession of consumer mortgage LHFI classified as TDRs. At March 31, 2018, Trustmark had $45 thousand of consumer mortgage LHFI classified as TDRs in the process of formal foreclosure proceedings compared to none at December 31, 2017.

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

At March 31, 2018 and 2017, LHFI classified as TDRs totaled $25.8 million and $12.4 million, respectively, and were primarily comprised of credits with interest-only payments for an extended period of time which totaled $22.7 million and $9.5 million, respectively. The remaining TDRs at March 31, 2018 and 2017 resulted from real estate loans discharged through Chapter 7 bankruptcy that were not reaffirmed or from payment or maturity extensions. Trustmark had no material unused commitments on TDRs at March 31, 2018 and 2017.

For TDRs, Trustmark had a related loan loss allowance of $4.5 million and $382 thousand at March 31, 2018 and 2017, respectively. LHFI classified as TDRs are charged down to the most likely fair value estimate less an estimated cost to sell for collateral dependent loans, which would approximate net realizable value. There were no specific charge-offs related to TDRs for the three months ended March 31, 2018 and 2017.

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

	Three Months Ended March 31,					
	2018			2017		
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	$ 341	$ 325
Loans secured by 1-4 family residential properties	4	118	118	7	334	338
Commercial and industrial loans	1	2,471	2,471	—	—	—
Total	5	$ 2,589	$ 2,589	8	$ 675	$ 663

	Three Months Ended March 31,			
	2018		2017	
TDRs that Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment

Loans secured by 1-4 family residential properties	1	$	4	1	$	—
Commercial and industrial	2		—	2		—
Total	3	$	4	3	$	—

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

The following tables detail LHFI classified as TDRs by loan type at March 31, 2018 and 2017 ($ in thousands):

	March 31, 2018		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 189	$189
Secured by 1-4 family residential properties	60	2,916	2,976
Secured by nonfarm, nonresidential properties	—	380	380
Commercial and industrial loans	—	21,745	21,745
Other loans	—	556	556
Total TDRs	$60	$ 25,786	$25,846

	March 31, 2017		
	Accruing	Nonaccrual	Total
Loans secured by real estate:			
Construction, land development and other land	$—	$ 642	$642
Secured by 1-4 family residential properties	—	3,070	3,070
Secured by nonfarm, nonresidential properties	—	841	841
Commercial and industrial loans	—	7,845	7,845
Consumer loans	—	1	1
Total TDRs	$—	$ 12,399	$12,399

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 and completeness 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 or not current.
- 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), Regulation O requirements and regulations governing appraisals.

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 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, relationships of $500 thousand or more 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 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, a semi-annual review of significant development, commercial construction, multi-family and non-owner occupied projects is performed. The review assesses each particular project with respect to location, project valuations, progress of completion, leasing status, current financial information, rents, operating expenses, cash flow, adherence to budget and projections and other information as applicable. Summary results are reviewed by Senior and Regional Credit Officers in addition to the Chief Credit Officer with a determination as to the appropriateness of existing risk ratings and accrual status.

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.

The tables below present LHFI by loan type and credit quality indicator at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018				
	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	$923,197	$ 364	$ 2,781	$ 217	$926,559
Secured by 1-4 family residential properties	125,103	103	4,553	70	129,829
Secured by nonfarm, nonresidential properties	2,199,000	5,100	53,228	506	2,257,834
Other real estate secured	424,825	99	390	—	425,314
Commercial and industrial loans	1,431,136	26,231	103,621	979	1,561,967
Consumer loans	—	—	—	—	—
State and other political subdivision loans	918,742	5,850	11,422	—	936,014
Other loans	471,499	—	2,721	105	474,325
Total	$6,493,502	$ 37,747	$ 178,716	$ 1,877	$6,711,842

	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	$58,878	$507	$ 71	$ 173	$59,629	$986,188

land						
Secured by 1-4 family residential properties	1,544,207	6,402	1,056	17,391	1,569,056	1,698,885
Secured by nonfarm, nonresidential properties	65	—	—	—	65	2,257,899
Other real estate secured	350	—	—	—	350	425,664
Commercial and industrial loans	—	—	—	—	—	1,561,967
Consumer loans	166,480	1,569	247	173	168,469	168,469
State and other political subdivision loans	—	—	—	—	—	936,014
Other loans	4,574	—	—	—	4,574	478,899
Total	$1,774,554	$8,478	$ 1,374	$ 17,737	$1,802,143	$8,513,985

	December 31, 2017				
	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	$922,563	$316	$ 3,780	$ 222	$926,881
Secured by 1-4 family residential properties	127,405	134	4,948	76	132,563
Secured by nonfarm, nonresidential properties	2,135,749	6,684	50,785	527	2,193,745
Other real estate secured	517,036	—	517	—	517,553
Commercial and industrial loans	1,437,590	28,780	103,089	886	1,570,345
Consumer loans	—	—	—	—	—
State and other political subdivision loans	936,420	5,850	10,213	—	952,483
Other loans	478,083	—	16,390	108	494,581
Total	$6,554,846	$41,764	$ 189,722	$ 1,819	$6,788,151

	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	$60,240	$342	$—	$ 161	$60,743	$987,624
Secured by 1-4 family residential properties	1,516,691	7,874	1,809	16,374	1,542,748	1,675,311
Secured by nonfarm, nonresidential properties	78	—	—	—	78	2,193,823
Other real estate secured	403	—	—	—	403	517,956
Commercial and industrial loans	—	—	—	—	—	1,570,345
Consumer loans	169,146	2,396	242	134	171,918	171,918
State and other political subdivision loans	—	—	—	—	—	952,483
Other loans	5,926	—	—	—	5,926	500,507

Total	$1,752,484	$10,612	$2,051	$ 16,669	$1,781,816	$8,569,967

Past Due Loans Held for Sale (LHFS)

LHFS past due 90 days or more totaled $34.8 million and $35.5 million at March 31, 2018 and December 31, 2017, 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.

Trustmark did not exercise its buy-back option on any delinquent loans serviced for GNMA during the first three months of 2018 or 2017.

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 five separate factors made up of unique components that when weighted and combined produce an estimated level of reserve for each of the loan pools. The five qualitative factors include the following:

- Economic indicators
- Performance trends
- Management experience
- Credit concentrations
- Loan policy exceptions

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

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.

The following tables detail the balance in the allowance for loan losses, LHFI allocated to each loan type segmented by the impairment evaluation methodology used at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$64	$ 7,762	$7,826
Secured by 1-4 family residential properties	42	9,549	9,591
Secured by nonfarm, nonresidential properties	1,041	23,479	24,520
Other real estate secured	—	2,309	2,309
Commercial and industrial loans	6,771	22,246	29,017
Consumer loans	—	3,227	3,227
State and other political subdivision loans	—	792	792
Other loans	1,116	2,837	3,953

Total allowance for loan losses, LHFI	$9,034	$ 72,201	$81,235

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	December 31, 2017		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$75	$ 7,790	$7,865
Secured by 1-4 family residential properties	1,331	9,543	10,874
Secured by nonfarm, nonresidential properties	165	23,263	23,428
Other real estate secured	—	2,790	2,790
Commercial and industrial loans	131	22,720	22,851
Consumer loans	—	3,470	3,470
State and other political subdivision loans	—	789	789
Other loans	41	4,625	4,666
Total allowance for loan losses, LHFI	$1,743	$ 74,990	$76,733

The following tables detail LHFI by loan type related to each balance in the allowance for loan losses, LHFI segregated by the impairment evaluation methodology used at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$932	$985,256	$986,188
Secured by 1-4 family residential properties	3,696	1,695,189	1,698,885
Secured by nonfarm, nonresidential properties	12,186	2,245,713	2,257,899
Other real estate secured	—	425,664	425,664
Commercial and industrial loans	31,699	1,530,268	1,561,967
Consumer loans	1	168,468	168,469
State and other political subdivision loans	—	936,014	936,014
Other loans	1,116	477,783	478,899
Total	$49,630	$8,464,355	$8,513,985

	December 31, 2017		
	LHFI Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Construction, land development and other land	$1,405	$986,219	$987,624
Secured by 1-4 family residential properties	4,736	1,670,575	1,675,311
Secured by nonfarm, nonresidential properties	10,423	2,183,400	2,193,823
Other real estate secured	—	517,956	517,956
Commercial and industrial loans	31,799	1,538,546	1,570,345
Consumer loans	17	171,901	171,918
State and other political subdivision loans	—	952,483	952,483
Other loans	556	499,951	500,507
Total	$48,936	$8,521,031	$8,569,967

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

	Three Months Ended March 31,	
	2018	2017
Balance at beginning of period	$76,733	$71,265
Loans charged-off	(2,542)	(4,202)
Recoveries	3,083	2,620
Net (charge-offs) recoveries	541	(1,582)
Provision for loan losses, LHFI	3,961	2,762
Balance at end of period	$81,235	$72,445

The following tables detail changes in the allowance for loan losses, LHFI by loan type for the periods ended March 31, 2018 and 2017 ($ in thousands):

	2018				
	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance March 31,
Loans secured by real estate:					
Construction, land development and other land	$7,865	$ (2)	$ 195	$ (232)	$7,826
Secured by 1-4 family residential properties	10,874	(780)	267	(770)	9,591
Secured by nonfarm, nonresidential properties	23,428	—	21	1,071	24,520
Other real estate secured	2,790	—	6	(487)	2,309
Commercial and industrial loans	22,851	(121)	1,213	5,074	29,017
Consumer loans	3,470	(434)	501	(310)	3,227
State and other political subdivision loans	789	—	—	3	792
Other loans	4,666	(1,205)	880	(388)	3,953
Total allowance for loan losses, LHFI	$76,733	$ (2,542)	$ 3,083	$ 3,961	$81,235

	2017				
	Balance January 1,	Charge-offs	Recoveries	Provision for Loan Losses	Balance March 31,
Loans secured by real estate:					
Construction, land development and other land loans	$9,085	$ (58)	$ 303	$ (804)	$8,526
Secured by 1-4 family residential properties	10,347	(241)	152	529	10,787
Secured by nonfarm, nonresidential properties	20,967	—	182	759	21,908
Other real estate secured	2,263	—	20	856	3,139
Commercial and industrial loans	22,011	(1,984)	488	1,136	21,651
Consumer loans	3,241	(745)	480	216	3,192
State and other political subdivision loans	859	—	—	(11)	848
Other loans	2,492	(1,174)	995	81	2,394
Total allowance for loan losses, LHFI	$71,265	$ (4,202)	$ 2,620	$ 2,762	$72,445

Note 5 – Acquired Loans

Trustmark's loss share agreement with the FDIC covering the acquired covered loans secured by 1-4 family residential properties will expire in 2021.

Loans acquired in the Reliance merger completed on April 7, 2017 were evaluated using a fair value process to determine the degree of credit deterioration since origination and the collectibility of contractually required payments. Approximately $7.9 million of the loans acquired in the Reliance merger exhibited evidence of significant

credit deterioration since origination and for which it was probable at acquisition that Trustmark would not be able to collect all contractually required payments. These loans are accounted for as acquired impaired loans under FASB ASC Topic 310-30.

At March 31, 2018 and December 31, 2017, acquired loans consisted of the following ($ in thousands):

	March 31, 2018	December 31, 2017
Loans secured by real estate:		
Construction, land development and other land	$17,575	$23,586
Secured by 1-4 family residential properties	49,289	61,751
Secured by nonfarm, nonresidential properties	100,285	114,694
Other real estate secured	14,581	16,746
Commercial and industrial loans	21,808	31,506
Consumer loans	1,920	2,600
Other loans	10,018	10,634
Acquired loans	215,476	261,517
Allowance for loan losses, acquired loans	(4,294)	(4,079)
Net acquired loans	$211,182	$257,438

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

	Acquired Impaired	Acquired Not ASC 310-30 (1)
Carrying value, net at January 1, 2017	$218,107	$42,743
Transfers (2)	—	(36,719)
Additions (3)	7,899	109,548
Accretion to interest income	14,924	1,578
Payments received, net	(68,317)	(39,208)
Other (4)	(361)	(74)
Change in allowance for loan losses, acquired loans	7,318	—
Carrying value, net at December 31, 2017	179,570	77,868
Transfers (2)	—	(18,449)
Accretion to interest income	3,268	295
Payments received, net	(15,344)	(15,048)
Other (4)	(383)	(380)
Change in allowance for loan losses, acquired loans	(215)	—
Carrying value, net at March 31, 2018	$166,896	$44,286

(1) "Acquired Not ASC 310-30" loans consist of loans that are not in scope for FASB ASC Topic 310-30.
(2) “Acquired Not ASC 310-30” loans transferred to LHFI due to the discount on these loans being fully amortized.
(3) Loans acquired in the Reliance merger on April 7, 2017.
(4) 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):

	Three Months Ended March 31,	
	2018	2017
Accretable yield at beginning of period	$(31,426)	$(38,918)
Accretion to interest income	3,268	3,673
Additions (disposals), net	543	(183)
Reclassification from nonaccretable difference (1)	(1,353)	(1,788)
Accretable yield at end of period	$(28,968)	$(37,216)

(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 March 31,	
	2018	2017
Balance at beginning of period	$4,079	$11,397
Provision for loan losses, acquired loans	150	(1,605)
Loans charged-off	—	—
Recoveries	65	214
Net (charge-offs) recoveries	65	214
Balance at end of period	$4,294	$10,006

As discussed in Note 4 - 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 present the acquired loans by loan type and credit quality indicator at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018				
	Commercial Loans				
	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	$ 11,788	$ 130	$ 4,563	$ 169	$ 16,650
Secured by 1-4 family residential properties	10,589	57	2,110	—	12,756
Secured by nonfarm, nonresidential properties	79,748	739	19,224	545	100,256
Other real estate secured	12,051	—	1,695	455	14,201
Commercial and industrial loans	12,043	15	7,866	1,884	21,808
Consumer loans	—	—	—	—	—
Other loans	5,722	—	4,296	—	10,018
Total acquired loans	$ 131,941	$ 941	$ 39,754	$ 3,053	$ 175,689

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual (1)	Subtotal	Total Acquired Loans
Loans secured by real estate:						
Construction, land development and other land	$ 847	$ 28	$ 50	$ —	$ 925	$ 17,575
Secured by 1-4 family residential properties	34,691	973	753	116	36,533	49,289
Secured by nonfarm, nonresidential properties	29	—	—	—	29	100,285

Other real estate secured	380	—	—	—	380	14,581
Commercial and industrial loans	—	—	—	—	—	21,808
Consumer loans	1,910	10	—	—	1,920	1,920
Other loans	—	—	—	—	—	10,018
Total acquired loans	$37,857	$1,011	$ 803	$ 116	$ 39,787	$ 215,476

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

December 31, 2017

	Commercial Loans				
	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	$17,150	$ 234	$ 4,690	$264	$ 22,338
Secured by 1-4 family residential properties	14,021	298	3,029	—	17,348
Secured by nonfarm, nonresidential properties	95,147	1,400	17,583	530	114,660
Other real estate secured	12,730	102	3,031	477	16,340
Commercial and industrial loans	22,157	15	7,585	1,749	31,506
Consumer loans	—	—	—	—	—
Other loans	5,874	18	4,742	—	10,634
Total acquired loans	$167,079	$ 2,067	$ 40,660	$3,020	$ 212,826

	Consumer Loans					
	Current	Past Due 30-89 Days	Past Due 90 Days or More	Nonaccrual (1)	Subtotal	Total Acquired Loans
Loans secured by real estate:						
Construction, land development and other land	$1,188	$46	$ 14	$ —	$1,248	$ 23,586
Secured by 1-4 family residential properties	42,008	1,687	584	124	44,403	61,751
Secured by nonfarm, nonresidential properties	34	—	—	—	34	114,694
Other real estate secured	406	—	—	—	406	16,746
Commercial and industrial loans	—	—	—	—	—	31,506
Consumer loans	2,428	172	—	—	2,600	2,600
Other loans	—	—	—	—	—	10,634
Total acquired loans	$46,064	$1,905	$ 598	$ 124	$48,691	$ 261,517

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

At March 31, 2018 and December 31, 2017, there were no acquired impaired loans accounted for under FASB ASC Topic 310-30 classified as nonaccrual loans. At March 31, 2018, approximately $194 thousand of acquired loans not accounted for under FASB ASC Topic 310-30 were classified as nonaccrual loans, compared to approximately $304 thousand of acquired loans at December 31, 2017.

The following tables provide an aging analysis of contractually past due and nonaccrual acquired loans by loan type at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018						
	Past Due						
	30-59 Days	60-89 Days	90 Days or More (1)	Total	Nonaccrual (2)	Current Loans	Total Acquired Loans
Loans secured by real estate:							
Construction, land development and other land	$168	$20	$ 942	$1,130	$ —	$16,445	$ 17,575
Secured by 1-4 family residential properties	1,167	128	835	2,130	194	46,965	49,289
Secured by nonfarm, nonresidential properties	601	163	939	1,703	—	98,582	100,285
Other real estate secured	1,385	—	—	1,385	—	13,196	14,581
Commercial and industrial loans	1	—	—	1	—	21,807	21,808
Consumer loans	10	—	—	10	—	1,910	1,920
Other loans	18	—	22	40	—	9,978	10,018
Total acquired loans	$3,350	$311	$ 2,738	$6,399	$ 194	$208,883	$ 215,476

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

	December 31, 2017						
	Past Due						
			90 Days			Current	Total Acquired
	30-59 Days	60-89 Days	or More (1)	Total	Nonaccrual (2)	Loans	Loans
Loans secured by real estate:							
Construction, land development and							
other land	$34	$ 90	$ 861	$985	$ —	$22,601	$ 23,586
Secured by 1-4 family residential							
properties	1,691	614	654	2,959	302	58,490	61,751
Secured by nonfarm, nonresidential							
properties	467	73	898	1,438	—	113,256	114,694
Other real estate secured	132	—	—	132	—	16,614	16,746
Commercial and industrial loans	—	—	—	—	2	31,504	31,506
Consumer loans	16	156	—	172	—	2,428	2,600
Other loans	—	—	21	21	—	10,613	10,634
Total acquired loans	$2,340	$ 933	$ 2,434	$5,707	$ 304	$255,506	$ 261,517

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

Note 6 – Mortgage Banking

Mortgage Servicing Rights

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

	Three Months Ended March 31,	
	2018	2017

Balance at beginning of period	$84,269	$80,239
Origination of servicing assets	3,567	3,440
Change in fair value:		
Due to market changes	9,521	1,466
Due to run-off	(2,507)	(2,387)
Balance at end of period	$94,850	$82,758

Trustmark determines the fair value of the MSR using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. Trustmark considers the conditional prepayment rate (CPR), which is an estimated loan prepayment rate that uses historical prepayment rates for previous loans similar to the loans being evaluated, and the discount rate in determining the fair value of the MSR. An increase in either the CPR or discount rate assumption will result in a decrease in the fair value of the MSR, while a decrease in either assumption will result in an increase in the fair value of the MSR. At March 31, 2018, the fair value of the MSR included an assumed average prepayment speed of 7.25 CPR and an average discount rate of 10.28% compared to an assumed average prepayment speed of 8.15 CPR and an average discount rate of 10.32% at March 31, 2017.

Mortgage Loans Serviced/Sold

During the first three months of 2018 and 2017, Trustmark sold $237.2 million and $260.1 million, respectively, of residential mortgage loans. Pretax gains on these sales were recorded to noninterest income in mortgage banking, net and totaled $4.6 million for the first three months of 2018 compared to $3.6 million for the first three months of 2017. The table below details the mortgage loans sold and serviced for others at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018	December 31, 2017
Federal National Mortgage Association	$4,142,727	$4,128,614
Government National Mortgage Association	2,435,885	2,421,456
Federal Home Loan Mortgage Corporation	50,298	47,071
Other	25,312	26,864
Total mortgage loans sold and serviced for others	$6,654,222	$6,624,005

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. Trustmark is 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 are included in other expense.

Changes in the reserve for mortgage loan servicing putback expense for mortgage loans were as follows for the periods presented ($ in thousands):

	Three Months Ended March 31,	
	2018	2017
Balance at beginning of period	$1,000	$1,130

Provision for putback expenses	—	105
Other (1)	—	16
Balance at end of period	$1,000	$1,251

(1) Includes fair value adjustments for loans transferred due to underwriting issues as well as adjustments based on Trustmark's mortgage loan servicing putback reserve analysis.

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 7 – Other Real Estate

At March 31, 2018, 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 is susceptible to changes in market conditions in these areas.

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

	Three Months Ended March 31,	
	2018	2017
Balance at beginning of period	$43,228	$62,051
Additions	2,010	1,766
Disposals	(4,896)	(6,385)
Write-downs	(788)	(1,464)
Balance at end of period	$39,554	$55,968
Gains, net on the sale of other real estate included in other real estate expense	$414	$470

At March 31, 2018 and December 31, 2017, other real estate by type of property consisted of the following ($ in thousands):

	March 31, 2018	December 31, 2017
Construction, land development and other land properties	$24,776	$ 27,491
1-4 family residential properties	5,356	5,081
Nonfarm, nonresidential properties	9,234	10,468
Other real estate properties	188	188
Total other real estate	$39,554	$ 43,228

At March 31, 2018 and December 31, 2017, other real estate by geographic location consisted of the following ($ in thousands):

	March 31, 2018	December 31, 2017
Alabama	$8,962	$ 11,714
Florida	12,550	13,937
Mississippi (1)	15,737	14,260
Tennessee (2)	1,523	2,535
Texas	782	782
Total other real estate	$39,554	$ 43,228

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

Note 8 – Deposits

At March 31, 2018 and December 31, 2017, deposits consisted of the following ($ in thousands):

	March 31, 2018	December 31, 2017
Noninterest-bearing demand	$3,004,442	$2,978,074
Interest-bearing demand	2,376,628	2,432,814
Savings	3,837,468	3,408,183
Time	1,757,263	1,758,441
Total	$10,975,801	$10,577,512

Note 9 – 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. Securities sold under repurchase agreements were secured by securities with a carrying amount of $193.4 million and $200.9 million at March 31, 2018 and December 31, 2017, respectively. Trustmark's repurchase agreements are transacted under master repurchase agreements that give Trustmark, in the event of default by the counterparty, the right of offset with the same counterparty. As of March 31, 2018, all repurchase agreements were short-term and consisted primarily of sweep repurchase arrangements, under which excess deposits are "swept" into overnight repurchase agreements with Trustmark. The following table presents the securities sold under repurchase agreements by collateral pledged at March 31, 2018 and December 31, 2017 ($ in thousands):

	March 31, 2018	December 31, 2017
Mortgage-backed securities		
Other residential mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	$47,293	$68,246
Commercial mortgage-backed securities		
Issued or guaranteed by FNMA, FHLMC or GNMA	49,372	50,448
Total securities sold under repurchase agreements	$96,665	$118,694

Note 10 – Revenue from Contracts with Customers

Effective January 1, 2018, Trustmark accounts for revenue from contracts with customers in accordance with FASB ASC Topic 606, "Revenue from Contracts with Customers," which provides that revenue be recognized in a manner that depicts the transfer of goods or services to a customer in an amount that reflects the consideration Trustmark expects to be entitled to in exchange for those goods or services. Revenue from contracts with customers is recognized either over time in a manner that depicts Trustmark's performance, or at a point in time when control of the goods or services are transferred to the customer. Trustmark's noninterest income, excluding all of mortgage banking, net and securities gains (losses), net and portions of bank card and other fees and other income, are considered within the scope of FASB ASC Topic 606. Gains or losses on the sale of other real estate, which are included in Trustmark's noninterest expense as other real estate expense, are also within the scope of FASB ASC Topic 606.

General Banking Division

Service Charges on Deposit Accounts

In general, deposit accounts represent contracts with customers with no fixed duration and can be terminated or modified by either party at any time without compensation to the other party. According to FASB ASC Topic 606, a contract that can be terminated by either party without compensation does not exist for periods beyond the

then-current period. Therefore, deposit contracts are considered to renew day-to-day if not minute-to-minute.

Deposit contracts have a single continuous or stand-ready service obligation whereby Trustmark makes customer funds available for use by the customer as and when the customer chooses as well as other services such as statement rendering and online banking. The specific services provided vary based on the type of deposit account. These services are not individually distinct, but are distinct as a group, and therefore, constitute a single performance obligation which is satisfied over time and qualifies as a series of distinct service periods.

Trustmark receives a fixed service charge amount as consideration monthly for services rendered. The service charge amount varies based on the type of deposit account. Some of the service charge revenue is subject to refund provisions, which is variable consideration under the guidelines of FASB ASC Topic 606. Trustmark has elected the ‘as-invoiced’ practical expedient permitted under FASB ASC Topic 606 for recognition of service charge revenue. Therefore, revenue is recognized at the time and in the amount the customer is charged. The service charge revenue is presented net of refunded amounts on Trustmark’s consolidated statements of income.

Services related to non-sufficient funds, overdrafts, excess account activity, stop payments, dormant accounts, etc. are considered optional purchases for a deposit contract because there is no performance obligation for Trustmark until the service is requested by the customer or the occurrence of a triggering event. Fees for these services are fixed amounts and are charged to the customer when the service is performed. Revenue is recognized at the time the customer is charged.

Bank Card and Other Fees

Revenue from contracts with customers in bank card and other fees includes income related to interchange fees and various other contracts which primarily consists of contracts with a single performance obligation that is satisfied at a point in time. Trustmark receives a fixed consideration amount once the performance obligation is completed for these contracts. Trustmark reports revenue from these contracts net of amounts refunded or due to a third party.

Interchange Contracts

As both a debit and credit card issuer, Trustmark receives an interchange fee for every card transaction completed by its customers with a merchant. Trustmark receives two types of interchange fees: point-of-sale transactions in which the customer must enter the PIN associated with the card to complete the transaction (a debit card transaction), and signature transactions in which the signature of the customer is required to complete the transaction (a credit card transaction).

Trustmark, as the card issuing or settlement bank, has a contract (implied based on customary business practices) with the payment network in which Trustmark has a single continuous service obligation to make funds available for settlement of the card transaction. Trustmark's service obligation is satisfied over time and qualifies as a series of distinct service periods. Trustmark receives interchange fees as consideration for services rendered in the amount established by the respective payment network. The interchange fees are established by the payment network based on the type of transaction and is posted on their website. Trustmark receives and records interchange fee revenue from the payment networks daily net of all fees and amounts due to the payment network.

Other Income

Revenue from contracts with customers in other income includes income related to cash management services and other contracts with a single performance obligation that is satisfied at a point in time. Trustmark receives a fixed consideration amount once the performance obligation is completed for these contracts. Trustmark reports revenue from these contracts net of amounts refunded or due to a third party.

Cash Management Contracts

Trustmark provides cash management services through the delivery of various products and services offered to its business and municipal customers including various departments of state, city and local governments, universities and other non-profit entities. Similar to the deposit account contracts, the cash management contracts primarily represent contracts with customers with no fixed duration and can be terminated or modified by either party at any time without compensation to the other party. Therefore, cash management contracts are generally considered to renew day-to-day if not minute-to-minute.

Cash management contracts have a single continuous or stand-ready service obligation whereby Trustmark makes a specific service or group of services available for use by the customer as and when the customer chooses. The specific services provided vary based on the type of account or product. These services are not individually distinct, but are distinct as a group, and therefore, constitute a single performance obligation which is satisfied over time and qualifies as a series of distinct service periods.

Trustmark receives a set service charge or maintenance fee amount as consideration monthly for services rendered. However, some of the fees are based on the number of transactions that occur (i.e. flat fee for a set number of transactions per month then an additional charge for each transaction after that) or the average daily account balance maintained by the customer during the month and a small amount of the cash management fee revenue is

subject to refund provisions. These fees represent variable consideration under the guidelines of FASB ASC Topic 606. Trustmark has elected the ‘as-invoiced’ practical expedient permitted under FASB ASC Topic 606 for recognition of cash management fee revenue. The cash management revenue is presented net of any refunded amounts on Trustmark’s consolidated statements of income.

Trustmark’s merchant services provider contracts directly with Trustmark business customers and provides Trustmark’s merchant customers card processing equipment and transaction processing services. Trustmark’s contract with the merchant services provider has a single-continuous service obligation to provide customer referrals for potential new accounts which is satisfied over time and qualifies as a series of distinct service periods. Trustmark receives a flat fee for each new account established and a percentage of the residual income related to transactions processed for Trustmark’s merchant customers each month as provided in the contract. Under the guidelines of FASB ASC Topic 606, the fee received for each new account and the profit sharing represent variable consideration. Revenue from merchant card services contracts is recognized monthly using a time-elapsed measure of progress. Trustmark has elected the ‘as-invoiced’ practical expedient permitted under FASB ASC Topic 606 for recognition of the merchant card services revenue.

Other Real Estate Contracts

Trustmark records a gain or loss from the sale of other real estate when control of the property transfers to the buyer. Trustmark records the gain or loss from the sale of other real estate in noninterest expense as other real estate expense. Other real estate sales for the three months ended March 31, 2018 and 2017 resulted in net gains of $414 thousand and $470 thousand, respectively.

In general, Trustmark does not finance the sale of its other real estate to the buyer. If Trustmark were to finance the sale of its other real estate to a buyer, Trustmark would be required to assess whether the buyer is committed to perform their obligations under the contract and whether collectibility of the transaction price is probable. Once these two criteria are met, Trustmark derecognizes the other real estate asset and records a gain or loss on the sale once control of the property is transferred to the buyer. If a significant financing component is present, the transaction price and related gain or loss on the sale is adjusted.

Wealth Management Division

Trust Management Contracts

There are five categories of revenue included in trust management: personal trust and investments, retirement plan services, institutional custody, corporate trust and other. Each of these categories includes multiple types of contracts, service obligations and fee income. However, the majority of these contracts include a single service obligation that is satisfied over time, the customer is charged in arrears for services rendered and revenue is recognized when payment is received. In general, the time period between when the service obligation is completed and when payment from the customer is received is less than 30 days. Revenue from trust management contracts is primarily related to monthly service periods and based on the prior month-end's market value. Some trust management revenue is mandated by a court order, while other revenue consists of flat fees. Trust management revenue based on an account's market value represents variable consideration under the guidelines of FASB ASC Topic 606. Trustmark has elected the 'as-invoiced' practical expedient allowed under FASB ASC Topic 606 to account for the trust management revenue.

Investment Services Contract

Investment services includes both brokerage and annuity income. Trustmark has a contract with a third-party investment services company which contains a single continuous service obligation, to provide broker-dealer and advisory services to customers on behalf of the third-party, which is satisfied over time and qualifies as a series of distinct service periods. Trustmark serves as the agent between the third-party investment services company, the principle, and the customer. In accordance with the contract, Trustmark receives a monthly payment from the investment services company for commissions and advisory fees (asset management fees) earned on transactions completed in the prior month net of all charges and fees due to the investment services company. Trustmark recognizes revenue from the investment services company, net of the revenue sharing expense due to the investment services company, when the payments are received. Commissions vary from month-to-month based on the specific products and transactions completed. The advisory fees vary based on the average daily balance of the managed assets for the period. The commissions and advisory fees represent variable consideration under FASB ASC Topic 606. Trustmark has elected the 'as-invoiced' practical expedient allowed under FASB ASC Topic 606 to recognize revenue from the investment services company.

Insurance Division

Fisher Brown Bottrell Insurance, Inc. (FBBI), a wholly-owned subsidiary of TNB, operates as an insurance broker representing the policyholder and has no allegiance with any one insurance provider. FBBI serves as the agent

between the insurance provider (either insurance carrier or broker), the principal, and the policy holder, the customer. FBBI has four general categories of insurance contracts: commercial, commercial installments, personal and employee benefits. FBBI's insurance contracts contain a single performance obligation, policy placement, which is satisfied at a point in time. FBBI's performance obligation is satisfied as of the policy effective date.

In addition to policy placement, FBBI provides various other periodic services to the policyholders for which no additional fee is charged. These additional services are not considered material to the overall contract. Trustmark has elected the immaterial promises practical expedient allowed under FASB ASC Topic 606, which allows Trustmark to not assess whether promised services are performance obligations if the promised services are immaterial in the context of the contract. Therefore, the immaterial additional services offered to policyholders are not considered a performance obligation and no amount of the contract transaction price is allocated to these services.

In general, the transaction price for the insurance contracts is an established commission amount agreed upon by FBBI and the insurance provider. The commission amount varies based on the insurance provider and the type of policy. There are a small number of insurance contracts which FBBI does not receive a commission, but charges a fee directly to the policyholder.

Most of the commissions from insurance contracts are subject to clawback provisions which require FBBI to refund a prorated amount of the commissions received as a result of policy cancellations or lapses. Commissions subject to clawback provisions are considered variable consideration under FASB ASC Topic 606. Trustmark believes the expected value method of estimating the commissions subject to clawback provisions would best predict the amount of commissions FBBI will be entitled to because of the large number of insurance contracts with similar characteristics and the number of possible outcomes. FBBI calculates a separate weighted-average percentage (returned commissions percentage) based on actual cancellations over the previous three years for commercial lines, bonds, and personal lines. FBBI applies the respective returned commissions percentage to the commission revenue earned related to insurance contracts within these three lines each month to calculate the estimated returned commissions amount, which represents the variable consideration subject to variable constraint. Revenue from insurance contracts is reported net of the variable consideration subject to variable constraint. FBBI performs an analysis of the returned commissions reserve quarterly and adjusts the reserve balance based on all available information including actual cancellations and the remaining term of the contract. The returned commissions percentage is updated annually.

Insurance Producers at FBBI earn commission as compensation for each policy they are responsible for placing. Commissions are not paid to Producers immediately at the policy effective date, can be subject to clawback provisions and can vary by Producer. Producers receive the commissions for which they are entitled at the end of the month following the month in which the policy became effective. Effective April 1, 2018, FBBI implemented a ‘pay when paid’ system. Under the ‘pay when paid’ system, Producers receive the commissions for which they are entitled at the end of the month following the month in which FBBI receives payment from the insurance provider or customer. Under FASB ASC Subtopic 340-40, “Other Assets and Deferred Costs: Contracts with Customers,” the commission paid to the Producers is an incremental cost of obtaining a contract, which should be capitalized and amortized in a manner consistent with the pattern of transfer of the service related to the contract acquisition asset. Insurance contracts have a term of one year or less; therefore, Trustmark has elected the cost of obtaining a contract practical expedient allowed under FASB ASC Subtopic 340-40, which allows FBBI to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the contract asset that FBBI otherwise would have recognized is one year or less. Commission expense is recorded as noninterest expense in salaries and employee benefits when paid to the Producers.

Commercial Insurance Contracts

Revenue from FBBI’s commercial insurance contracts (both agency billed and direct billed) consists of a set commission amount, which is subject to clawback provisions. Revenue from commercial insurance contracts is recognized on the policy effective date, and a corresponding commission receivable is recorded concurrent with the revenue until payment is received by FBBI. Effective April 1, 2018, FBBI utilizes a ‘pay when paid’ system to account for commercial insurance contracts. Under the ‘pay when paid’ system, an estimated commission amount is entered in the system when a commercial insurance contract is placed. FBBI records a top line receivable based on the estimated commission amount entered in the system each month, along with a corresponding amount recognized as revenue, and then adjusts the estimated receivable when the commissions are received from the insurance provider or customer.

Commercial Installment Insurance Contracts

Revenue from commercial installment insurance contracts consists of a set commission amount, which is not subject to clawback provisions, and is recognized in twelve equal monthly installments when invoiced by FBBI in the agency management system. FBBI has only a small number of commercial installment insurance contracts and these contracts all have a term of one year; therefore, recognizing the revenue from these contracts over twelve months is not materially different than recognizing the revenue in full at the policy effective date for any given period.

Effective April 1, 2018, as a result of implementing this ‘pay when paid’ system, as applied to insurance contracts, revenue from commercial installment contracts is recognized in the same manner as commercial insurance contracts.

Personal Insurance Contracts

Revenue from FBBI’s personal insurance contracts consists of a set commission amount, which is subject to clawback provisions, and is recognized when payment is received (generally 30-60 days after the policy effective date). Personal insurance contracts have a term of one year; therefore, recognizing the revenue from these contracts when payment is received is not materially different than recognizing the revenue at the policy effective date for any given period.

Employee Benefits Insurance Contracts

Revenue from FBBI’s employee benefits insurance contracts consists of a variable commission amount, which is not subject to clawback provisions, and is recognized when payment is received, typically on a monthly basis. Employee benefits insurance

contracts have a set commission rate, but can vary from period to period based on changes in the number of employees covered by the policy (i.e. new hires and terminations). FBBI generally receives twelve monthly commission payments for these contracts with the initial payment being received approximately 60-90 days after the policy effective date. Under the guidelines of FASB ASC Topic 606, commissions from employee benefits insurance contracts represent fixed consideration because at contract inception (policy effective date) there is a set commission rate times a known number of covered employees. Changes in the number of covered employees are not known, nor can they be predicted, at contract inception. An increase or decrease in the number of covered employees after the policy effective date is considered a contract modification resulting from a change in scope and transaction price under FASB ASC Topic 606. This modification is treated as part of the existing contract because it does not add a distinct service. Employee benefits insurance contracts have a term of one year; therefore, recognizing the revenue from these contracts when payment is received is not materially different than recognizing the revenue at the policy effective date or the contract modification date for any given period.

Contingency Commission Insurance Contracts

In addition to the insurance contracts discussed above, FBBI has contracts with various insurance providers for which it receives contingency income based on volume of business and claims experience. FBBI is the principal and the insurance provider is the customer for these contingency commission insurance contracts. The contingency commission contracts have a single continuous or stand-ready service obligation whereby FBBI places policies with policyholders when acceptable to the insurance provider, which is satisfied over time. The contract term for these contingency commission contracts is one year. Revenue is recognized from the contingency commission contracts monthly using a time-elapsed measure of progress. FBBI accrues throughout the current year the amount of contingency commission income it expects to receive in the following year adjusted for a degree of uncertainty. FBBI updates a detail by insurance provider with the contingency commission income received, which is then compared to the total amount that was expected to be received. If actual receipts are higher or lower than the amount accrued in the prior year, the monthly accrual for the current year is adjusted accordingly.

Under the guidelines of FASB ASC Topic 606, revenue from contingency commission insurance contracts represents variable consideration and should be estimated using one of the two allowable methods subject to the variable consideration constraint. FBBI believes the most likely amount method to be the most appropriate method for estimating the variable consideration as there are only a few possible outcomes for each contract.

The following table presents noninterest income disaggregated by reportable operating segment and revenue stream for the periods presented ($ in thousands):

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017 (1)		
	Topic 606	Not Topic 606 (2)	Total	Topic 606	Not Topic 606 (2)	Total
General Banking Division						
Service charges on deposit accounts	$10,857	$—	$10,857	$10,832	$—	$10,832
Bank card and other fees	6,530	74	6,604	6,472	24	6,496
Mortgage banking, net	—	11,265	11,265	—	10,185	10,185
Wealth management	47	—	47	63	—	63
Other, net	1,440	(404)	1,036	2,340	(476)	1,864
Total noninterest income	$18,874	$10,935	$29,809	$19,707	$9,733	$29,440
Wealth Management Division						
Bank card and other fees	$22	$—	$22	$4	$—	$4
Wealth management	7,520	—	7,520	7,350	—	7,350
Other, net	1	22	23	—	23	23
Total noninterest income	$7,543	$22	$7,565	$7,354	$23	$7,377
Insurance Division						
Insurance commissions	$9,419	$—	$9,419	$9,212	$—	$9,212
Other, net	—	—	—	4	—	4
Total noninterest income	$9,419	$—	$9,419	$9,216	$—	$9,216
Consolidated						
Service charges on deposit accounts	$10,857	$—	$10,857	$10,832	$—	$10,832
Bank card and other fees	6,552	74	6,626	6,476	24	6,500
Mortgage banking, net	—	11,265	11,265	—	10,185	10,185
Insurance commissions	9,419	—	9,419	9,212	—	9,212
Wealth management	7,567	—	7,567	7,413	—	7,413
Other, net	1,441	(382)	1,059	2,344	(453)	1,891
Total noninterest income	$35,836	$10,957	$46,793	$36,277	$9,756	$46,033

(1) Trustmark elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

(2) Noninterest income not in scope for FASB ASC Topic 606 includes customer derivatives revenue and miscellaneous credit card fee income within bank card and other fees; mortgage banking, net; amortization of tax credits, accretion of the FDIC indemnification asset, cash surrender value on various life insurance policies, earnings on Trustmark's non-qualified deferred compensation plans, other partnership investments and rental income within other, net; and security gains (losses), net.

Note 11 – Defined Benefit and Other Postretirement Benefits

Qualified Pension Plans

Trustmark Capital Accumulation Plan

Trustmark maintained a noncontributory tax-qualified defined benefit pension plan titled the Trustmark Capital Accumulation Plan (the “Plan”) in which substantially all associates who began employment prior to 2007 participated. The Plan provided for retirement benefits based on the length of credited service and final average compensation, as defined in the Plan, which vested upon three years of service. On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan, effective as of December 31, 2016. As a result of the termination of the Plan, each participant became fully vested in their accrued benefits under the Plan. Final distributions were completed during the second quarter of 2017.

Trustmark Corporation Pension Plan for Certain Employees of Acquired Financial Institutions

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To satisfy commitments made by Trustmark to associates covered through plans obtained in acquisitions and subsequently merged into the Plan (collectively, the “Continuing Associates”), on July 26, 2016, the Board of Directors of Trustmark 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 “Continuing Plan”), effective as of December 30, 2016, immediately prior to the termination of the Plan.

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

	Three Months Ended March 31,	
	2018	2017
Service cost	$69	$63
Interest cost	83	665
Expected return on plan assets	(57)	(108)
Recognized net loss due to lump sum settlements	40	—
Recognized net actuarial loss	142	565
Net periodic benefit cost	$277	$1,185

For the plan year ending December 31, 2018, Trustmark’s minimum required contribution to the Continuing Plan is expected to be $275 thousand; however, Management and the Board of Directors of Trustmark will monitor the Continuing Plan throughout 2018 to determine any additional funding requirements by the plan’s measurement date, which is December 31.

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 mergers prior to 2014, Trustmark became the administrator of small nonqualified supplemental retirement plans, for which the plan benefits were frozen prior to the merger date.

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 March 31,	
	2018	2017
Service cost	$29	$35
Interest cost	495	561

Amortization of prior service cost	63	63
Recognized net actuarial loss	226	222
Net periodic benefit cost	$813	$881

Note 12 – 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. 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 March 31, 2018	
	Performance Awards	Time-Vested Awards
Nonvested shares, beginning of period	213,516	320,357
Granted	51,174	116,325
Released from restriction	(54,144)	(98,392)
Forfeited	(24,626)	(380)
Nonvested shares, end of period	185,920	337,910

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

	Three Months Ended March 31,	
	2018	2017
Performance awards	$(106)	$105
Time-vested awards	891	848
Total compensation expense	$785	$953

Note 13 – 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.

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 fully 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 nature of the transaction and the assessed creditworthiness of the borrower. At March 31, 2018 and 2017, Trustmark had unused commitments to extend credit of $3.280 billion and $3.052 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 the same policies regarding credit risk and collateral, which are followed in the lending process. At March 31, 2018 and 2017, Trustmark’s maximum exposure to credit loss in the event of nonperformance by the other party for letters of credit was $103.5 million and $109.2 million, respectively. These amounts consist primarily of commitments with maturities of less than three years, which have an immaterial carrying value. Trustmark holds collateral to support standby letters of credit when deemed necessary. As of March 31, 2018 and 2017, the fair value of collateral held was $27.8 million and $33.7 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, staying all other discovery and setting a deadline for the parties to complete briefing on class certification issues. In April 2015, the court granted in part and denied in part the defendants' motions to dismiss the Class Plaintiffs' claims and the OSIC's claims. The court dismissed all of the Class Plaintiffs' fraudulent transfer claims and dismissed certain of the OSIC's claims. The court denied the motions by TNB and the other financial institution defendants to dismiss the OSIC's constructive fraudulent transfer claims.

On June 23, 2015, the court allowed the Class Plaintiffs to file a Second Amended Class Action Complaint (SAC), which asserted new claims against TNB and certain of the other defendants for (i) aiding, abetting and participating in a fraudulent scheme, (ii) aiding, abetting and participating in violations of the Texas Securities Act, (iii) aiding, abetting and participating in breaches of fiduciary duty, (iv) aiding, abetting and participating in conversion and (v) conspiracy. On July 14, 2015, the defendants (including TNB) filed motions to dismiss the SAC and to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer claims against TNB and the other financial institutions that are defendants in the action. On July 27, 2016, the court denied the motion by TNB and the other financial institution defendants to dismiss the SAC and also denied the motion by TNB and the other financial institution defendants to reconsider the court's prior denial to dismiss the OSIC's constructive fraudulent transfer

claims. On August 24, 2016, TNB filed its answer to the SAC. On October 20, 2017, the OSIC filed a motion seeking an order lifting the discovery stay and establishing a trial schedule. On November 7, 2017, the court denied the OSIC's motion seeking class certification and designation of class representatives and counsel, finding that common issues of fact did not predominate. The court granted the OSIC's motion to lift the discovery stay that it had previously ordered.

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

2012. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues.

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

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

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 probable and a reasonable estimate cannot reasonably be made.

Note 14 – 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 March 31,	
	2018	2017
Basic shares	67,809	67,687
Dilutive shares	152	159
Diluted shares	67,961	67,846

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 March 31,	
	2018	2017
Weighted-average antidilutive stock awards	54	43

Note 15 – Statements of Cash Flows

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

	Three Months Ended March 31,	
	2018	2017
Income taxes paid	$—	$778
Interest expense paid on deposits and borrowings	13,902	7,190
Noncash transfers from loans to other real estate	2,010	1,766

Note 16 – 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 2017 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. Trustmark's and TNB's minimum risk-based capital requirements include the phased in capital conservation buffer of 1.875% at March 31, 2018 and 1.250% at December 31, 2017. Accumulated other comprehensive loss, net of tax, is not included in computing regulatory capital. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB and limit Trustmark's and TNB's ability to pay dividends. As of March 31, 2018, Trustmark and TNB exceeded all applicable minimum capital standards. In addition, Trustmark and TNB met applicable regulatory guidelines to be considered well-capitalized at March 31, 2018. 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 March 31, 2018, 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 March 31, 2018 and December 31, 2017 ($ in thousands):

	Actual Regulatory Capital Amount	Ratio	Minimum Requirement	To Be Well Capitalized
At March 31, 2018:				