TRUSTMARK CORP
Form 10-K
February 19, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 000-3683

TRUSTMARK CORPORATION

(Exact name of Registrant as specified in its charter)

MISSISSIPPI (State or other jurisdiction of incorporation or organization)	64-0471500 (IRS Employer Identification Number)
248 East Capitol Street, Jackson, Mississippi (Address of principal executive offices)	39201 (Zip Code)
Registrant's telephone number, including area code:	(601) 208-5111
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, no par value (Title of Class)	Nasdaq Stock Market (Name of Exchange on Which Registered)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition 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	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 Act.) Yes No

Based on the closing sales price at June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by nonaffiliates of the registrant was approximately $1.311 billion.

As of January 31, 2019, there were issued and outstanding 65,179,997 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Trustmark's 2019 Annual Meeting of Shareholders to be held April 23, 2019 are incorporated by reference into Part III of the Form 10-K report.

TRUSTMARK CORPORATION

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I		PAGE
Item 1.	Business	3
Item 1A.	Risk Factors	16
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	26
PART II		
Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
Item 6.	Selected Financial Data	29
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	67
Item 8.	Financial Statements and Supplementary Data	69
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	142
Item 9A.	Controls and Procedures	142
Item 9B.	Other Information	142
PART III		
Item 10.	Directors, Executive Officers of the Registrant and Corporate Governance	143
Item 11.	Executive Compensation	143
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	143
Item 13.	Certain Relationships and Related Transactions, and Director Independence	143
Item 14.	Principal Accounting Fees and Services	143
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	144
Item 16.	Summary	144
SIGNATURES		148

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “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 Item 1A. Risk Factors in this report could have an adverse effect on our business, results of operations and financial condition. Should one or more of these risks materialize, or should any such underlying assumptions prove to be significantly different, actual results may vary significantly from those anticipated, estimated, projected or expected.

Risks that could cause actual results to differ materially from current expectations of Management include, but are not limited to, changes in the level of nonperforming assets and charge-offs, local, state and national economic and market conditions, including 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 related 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

ITEM 1. BUSINESS
The Corporation

Description of Business

Trustmark Corporation (Trustmark), a Mississippi business corporation incorporated in 1968, is a bank holding company headquartered in Jackson, Mississippi. Trustmark's principal subsidiary is Trustmark National Bank (TNB), initially chartered by the State of Mississippi in 1889. At December 31, 2018, TNB had total assets of $13.284 billion, which represented approximately 99.98% of the consolidated assets of Trustmark.

Through TNB and its subsidiaries, Trustmark operates as a financial services organization providing banking and other financial solutions through 196 offices and 2,856 full-time equivalent associates (measured at December 31, 2018) located in the states of Alabama, Florida (primarily in the northwest or "Panhandle" region of that state, which is referred to herein as Trustmark's Florida market), Mississippi, Tennessee (in the Memphis and Northern Mississippi regions, which are collectively referred to herein as Trustmark's Tennessee market), and Texas (primarily in Houston, which is referred to herein as Trustmark's Texas market). The principal products produced and services rendered by TNB and Trustmark's other subsidiaries are as follows:

Trustmark National Bank

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

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

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

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

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

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

Capital Trust

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

Strategy

Trustmark seeks to be a premier diversified financial services company in its markets, providing a broad range of banking, wealth management and insurance solutions to its customers. Trustmark’s products and services are designed

to strengthen and expand customer relationships and enhance the organization's competitive advantages in its markets as well as to provide cross-selling opportunities that will enable Trustmark to continue to diversify its revenue and earnings streams.

The following table sets forth summary data regarding Trustmark's securities, loans, assets, deposits, equity and revenue over the past five years ($ in thousands):

December 31,	2018	2017	2016	2015	2014
Securities	$2,721,456	$3,295,121	$3,515,325	$3,533,240	$3,545,252
Total securities growth (decline)	$(573,665)	$(220,204)	$(17,915)	$(12,012)	$182,370
Total securities growth (decline)	-17.41 %	-6.26 %	-0.51 %	-0.34 %	5.42 %
Loans *	$8,942,800	$8,831,484	$8,123,460	$7,481,796	$6,998,878
Total loans growth (decline)	$111,316	$708,024	$641,664	$482,918	$395,791
Total loans growth (decline)	1.26 %	8.72 %	8.58 %	6.90 %	5.99 %
Assets	$13,286,460	$13,797,953	$13,352,333	$12,678,896	$12,250,633
Total assets growth (decline)	$(511,493)	$445,620	$673,437	$428,263	$460,250
Total assets growth (decline)	-3.71 %	3.34 %	5.31 %	3.50 %	3.90 %
Deposits	$11,364,411	$10,577,512	$10,056,012	$9,588,230	$9,698,358
Total deposits growth (decline)	$786,899	$521,500	$467,782	$(110,128)	$(161,544)
Total deposits growth (decline)	7.44 %	5.19 %	4.88 %	-1.14 %	-1.64 %
Equity	$1,591,453	$1,571,701	$1,520,208	$1,473,057	$1,419,940
Total equity growth (decline)	$19,752	$51,493	$47,151	$53,117	$64,987
Total equity growth (decline)	1.26 %	3.39 %	3.20 %	3.74 %	4.80 %
Years Ended December 31,					
Revenue **	$604,256	$592,213	$561,476	$564,914	$578,478
Total revenue growth (decline)	$12,043	$30,737	$(3,438)	$(13,564)	$16,132
Total revenue growth (decline)	2.03 %	5.47 %	-0.61 %	-2.34 %	2.87 %

* Includes loans held for investment and acquired loans.

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

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

Overview of Lending Business

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

- Loans Held for Investment (LHFI) – Loans originally underwritten by Trustmark that do not constitute loans held for sale or acquired loans.
- Loans Held for Sale (LHFS) – Mortgage loans purchased from wholesale customers or originated in Trustmark's General Banking Segment, other than mortgage loans that are retained in the LHFI portfolio based on banking relationships or certain investment strategies.
-

Acquired Loans – Loans acquired by Trustmark, either pursuant to the acquisition of another bank or pursuant to an acquisition of some or all of another bank's loan portfolio as well as loans acquired by Trustmark in a Federal Deposit Insurance Corporation (FDIC)-assisted transaction and that are covered under a loss-share agreement with the FDIC.

The following discussion briefly summarizes Trustmark's lending business by focusing on LHFI and LHFS, and includes a discussion of the risks inherent in these loans, Trustmark's underwriting policies for its loans and the characteristics of the real estate loan component of these loans. Acquired loans and covered loans are excluded from this summary, as Trustmark did not underwrite those loans at inception. Discussion of Trustmark's acquired loans, including covered loans, is contained elsewhere in this report.

As a general matter, extending credit to businesses and consumers exposes Trustmark to credit risk, which is the risk that the principal balance and any related interest may not be collected according to the original terms due to the inability or unwillingness of the borrower to repay the loan. Trustmark mitigates credit risk through a set of internal controls, which includes adherence to

conservative lending practices and underwriting guidelines, collateral monitoring, and oversight of its borrower's financial performance and collateral. The risks inherent in specific subsets of lending are discussed below.

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

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

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

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

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

income-producing properties. Additional support offered by guarantors is also considered.

Risk for owner-occupied commercial real estate is driven by the creditworthiness of the underlying borrowers, particularly cash flow from the borrowers' business operations as well as the risk of a shortfall in collateral. Credit performance of loans secured by commercial income-producing real estate can be negatively affected by national, regional and local economic conditions, which may result in deteriorating tenant credit profiles, tenant losses, reduced rental/lease rates and higher than anticipated vacancy rates, all contributing to declines in value or liquidity of the underlying real estate collateral. Other factors, such as increasing interest rates, may result in higher capitalization rates, thereby reducing a property's value.

Commercial and Industrial LHFI – Commercial loans (other than commercial loans related to real estate assets, which are summarized above) are made to many types of businesses for various purposes, such as short-term working capital loans that are usually secured by accounts receivable and inventory, equipment and fixed asset purchases that are secured by those assets and term financing for those within Trustmark's geographic markets. Trustmark's credit underwriting process for commercial loans includes analysis of historical and projected cash flows and performance, evaluation of financial strength of both borrowers and guarantors as

reflected in current and detailed financial information and evaluation of underlying collateral to support the credit. Credit risk within the commercial loan portfolio is managed through adherence to specific commercial lending policies and internally established lending authorities, diversification within the portfolio and monitoring of the portfolio on a continuing basis.

Credit risk in commercial and industrial loans can arise due to fluctuations in borrowers' financial condition, deterioration in collateral values and changes in market conditions. The credit risk inherent in these loans depends on, to a significant degree, the general economic conditions of these areas. Further, credit risk can increase if Trustmark's loans are concentrated to borrowers engaged in the same or similar activities, or to groups of borrowers who may be uniquely or disproportionately affected by market or economic conditions.

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

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

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

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

Recent Economic and Industry Developments

The economy continued to show moderate signs of improvement during 2018; however, economic concerns remain as a result of the cumulative weight of volatility in crude oil prices and uncertain growth prospects in Russia and other emerging markets, combined with uncertainty regarding the possibility of further tightening of the monetary policy by the Board of Governors of the Federal Reserve System (FRB) and the potential market impact of efforts by the FRB to reduce the size of its balance sheet, the consequences of the decision of the United Kingdom to exit the European Union, the potential impact on the economy of the current presidential administration's policies, United States trade relations and the recent shut-down of the United States Government. Doubts surrounding the near-term direction of global markets, and the potential impact of these trends on the United States economy, are expected to persist for the near term. While Trustmark's customer base is wholly domestic, international economic conditions affect domestic conditions, and thus may have an impact upon Trustmark's financial condition or results of operations.

In the January 2019 "Summary of Commentary on Current Economic Conditions by Federal Reserve Districts," the twelve Federal Reserve Districts' reports suggested national economic activity continued to expand at a modest to moderate pace during the reporting period. Reports by the twelve Federal Reserve Districts noted retail sales grew modestly, manufacturing activity expanded but at a slower rate, particularly in the auto and energy sectors, little change in both residential and commercial real estate activity, modest to moderate growth in the nonfinancial services sector, activity in the energy sector expanded at a slower pace with lower energy prices cited as contributing to a pullback in capital spending expectations and lending volumes increased modestly. Reports by the twelve Federal Reserve Districts also noted employment increased modestly with moderate gains in wages and modest to moderate increases in prices citing rising materials and freight costs as well as higher tariffs as contributing factors. Reports by the twelve Federal Reserve Districts also suggested that outlooks for the near-term remained positive although less optimistic among concerns regarding increased financial market volatility, rising short-term interest rates, falling energy prices and elevated trade and political uncertainty. The Federal Reserve's Sixth District, Atlanta (which includes Trustmark's Alabama, Florida and Mississippi market regions), reported that economic activity expanded at a moderate pace, labor markets remained tight and wages increased, non-labor input costs increased while the ability to pass these increases to customers varied, retail and auto sales improved, residential real estate activity slowed while commercial real estate activity remained stable, manufacturing activity decreased and banking conditions were stable.

The Federal Reserve's Sixth District also reported that while expectations for steady economic growth remain for the near-term, levels of uncertainty for 2019 increased to include concerns over politics and trade. The Federal Reserve's Eighth District, St. Louis (which includes Trustmark's Tennessee market region), reported that economic conditions improved slightly, labor markets remained tight with moderate growth in wages, consumer spending improved modestly, slight improvements in both residential and commercial real estate activity and manufacturing activity and loan volumes increased although at a slower rate. The Federal Reserve's Eleventh District, Dallas (which includes Trustmark's Texas market region), reported economic activity expanded at a modest pace, noting decelerated growth across the manufacturing, services, retail and energy sectors, a slight decline in loan volumes, new home sells declined modestly, employment expanded at a slightly slower pace and wage growth remained elevated. The Federal Reserve's Eleventh District also reported that outlooks for the near-term were less optimistic among concerns regarding declining oil prices, political and trade uncertainty, higher interest rates and stock market volatility.

During December 2018, the FRB increased the target range for the federal funds rate for the fourth time in 2018 as anticipated. The FRB also continues to reduce the size of its balance sheet. It is not possible to predict the impact, if any, on market interest rates (or on markets generally) of efforts by the FRB to continue to reduce the size of its balance sheet. Notwithstanding recent increases in the target rate for federal funds by the FRB, interest rates remain within a low range that, when combined with the extended period of historically low interest rates in recent years, continue to place pressure on net interest margins for Trustmark (as well as its competitors). The FRB has indicated that further increases in rates in 2019 will depend on market conditions. Further increases in interest rates will place competitive pressures on the deposit cost of funds. It is not possible to predict the pace and magnitude of rising interest rates, or the impact rising rates will have on Trustmark's results of operations.

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

Competition

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

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

At June 30, 2018, Trustmark's deposit market share ranked within the top three positions in 57% of the 56 counties served and within the top five positions in 71% of the counties served. The table below presents FDIC deposit data regarding TNB's deposit market share by state as of June 30, 2018. The FDIC deposit market share data presented below does not align with Trustmark's reported geographic market regions, which in some instances cross state lines, and Trustmark's geographic coverage within certain states presented below is not statewide (see the section captioned "Description of Business" above).

State	Deposit Market Share
Alabama	1.63%
Florida	0.13%
Mississippi	14.13%
Tennessee	0.39%
Texas	0.05%

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

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

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

Supervision and Regulation

The following discussion sets forth material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides specific information relevant to Trustmark. The discussion is a summary of detailed statutes, regulations and policies. The descriptions are not intended to be complete summaries of the statutes, regulations and policies referenced therein. Such statutes, regulations and policies are continually under the review of the United States Congress and state legislatures as well as federal and state regulatory agencies. A change in statutes, regulations or policies could have a material impact on the business of Trustmark and its subsidiaries.

Regulation of Trustmark

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

Federal Oversight Over Mergers and Acquisitions, Investments and Branching

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

The BHC Act also generally requires FRB approval for a bank holding company's acquisition of a company that is not an insured depository institution. Bank holding companies generally may engage, directly or indirectly, only in banking and such other activities as are determined by the FRB to be closely related to banking. The FRB must generally consider whether performance of the activity by a bank holding company can reasonably be expected to

produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. The FRB has express statutory authority to also consider the "risk to the stability of the United States banking or financial system" when reviewing the acquisition of such a company by a bank holding company.

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

Under provisions of the BHC Act referred to as the "Volcker Rule," limitations are placed on the ability of certain insured depository institutions, insured depository institution holding companies and their affiliates ("banking entities"), including Trustmark and TNB,

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to acquire or retain ownership interests in, or act as sponsor to, certain investment funds, including hedge funds and private equity funds. The Volcker Rule also places restrictions on proprietary trading by a banking entity. In June 2018, five federal financial agencies released a proposal that would simplify and tailor compliance requirements relating to the Volker Rule. The proposal would replace compliance program requirements for a banking entity with trading assets and liabilities of less than $1 billion, including Trustmark and TNB, with a rebuttable presumption of the entity's compliance with the Volker Rule, and would simplify compliance requirements associated with exempt market making, underwriting and risk-mitigating hedging activities for such an entity. The proposal would also change the Volker Rule's definition of "trading account" by replacing the definition's prong addressing the "purpose" of a trade with a new prong that is based on the accounting treatment of a position. Finally, the proposal considers the adoption of an exclusion for loan-related swaps from the proprietary trading restrictions of the Volker Rule. Management is reviewing the potential impact of the proposal on Trustmark and TNB.

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

Certain acquisitions of Trustmark's voting stock may be subject to regulatory approval or notice under federal law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of Trustmark's stock in excess of the amount that can be acquired without regulatory approval under the Change in Bank Control Act and the BHC Act, which prohibit any person or company from acquiring control of Trustmark without, in most cases, the prior written approval of the FRB.

Source of Strength

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

Capital Adequacy

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal bank regulatory agencies. Capital adequacy regulations and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. The FRB and the OCC, the primary regulators of Trustmark and TNB, respectively, have substantially similar risk-based capital ratio and leverage ratio requirements.

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

For purposes of calculating the denominator of the risk-based capital ratios, a banking institution's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. For purposes of calculating the numerator of the capital ratios, capital, at both the holding company and bank level, is classified in one of three tiers depending on the "quality" and loss-absorbing features of the capital instrument. Common equity Tier 1 capital is predominantly comprised of common stock instruments (including related surplus) and retained earnings, net of treasury stock, and after making necessary capital deductions and adjustments. Tier 1 capital is comprised of common equity Tier 1 capital and additional Tier 1 capital, which includes non-cumulative perpetual preferred stock and similar instruments meeting specified eligibility criteria (including related surplus) and "TARP" preferred stock and other instruments issued under the Emergency Economic Stabilization Act of 2008. Newly issued trust preferred securities and cumulative perpetual preferred stock may not be included in Tier 1 capital. Smaller depository institution holding companies (those with assets less than $15 billion as of year-end 2009) and most mutual holding companies are allowed to continue to count as Tier 1 capital most outstanding trust preferred securities and other non-qualifying securities that were issued prior to May 19, 2010 (up to a limit of 25% of Tier 1 capital, excluding non-qualifying capital instruments) rather than phasing such securities out of regulatory capital. However, a depository institution holding company with less than $15 billion in assets that grows to $15 billion or more in assets as a result of an acquisition of another depository institution holding company generally is no longer allowed to count outstanding non-qualifying capital instruments toward its Tier 1 capital. Trustmark currently has outstanding trust preferred securities

that are permitted to continue to count as Tier 1 capital up to the regulatory limit. Total capital is comprised of Tier 1 capital and Tier 2 capital, which includes certain subordinated debt with a minimum original maturity of five years (including related surplus) and a limited amount of allowance for loan losses. Newly issued trust preferred securities and cumulative perpetual preferred stock generally may be included in Tier 2 capital, provided they do not include features that are disallowed by the capital rules, such as the acceleration of principal other than in the event of a bankruptcy, insolvency, or receivership of the issuer.

Failure to meet minimum capital requirements could subject a bank to a variety of enforcement remedies. The FDI Act identifies five capital categories for insured depository institutions: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An insured depository institution is subject to differential regulation corresponding to the capital category within which the institution falls. The FDI Act requires banking regulators to take prompt corrective action whenever financial institutions do not meet minimum capital requirements. Failure to meet the capital guidelines could also subject an insured depository institution to capital raising requirements. In addition, an insured depository institution is generally prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company, if the institution would thereafter be undercapitalized. In addition, the FDI Act requires the various regulatory agencies to prescribe certain noncapital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation, and permits regulatory action against an insured depository institution that does not meet such standards.

An institution’s failure to exceed the capital conservation buffer with common equity Tier 1 capital would result in limitations on an institution’s ability to make capital distributions and discretionary bonus payments.

At December 31, 2018, Trustmark exceeded its minimum capital requirements with common equity Tier 1 capital, Tier 1 capital and total capital equal to 11.77%, 12.33% and 13.07% of its total risk-weighted assets, respectively. At December 31, 2018, TNB also exceeded these requirements with common equity Tier 1 capital, Tier 1 capital and total capital equal to 12.14%, 12.14% and 12.89% of its total risk-weighted assets, respectively. At December 31, 2018, the leverage ratios for Trustmark and TNB were 10.26% and 10.13%, respectively. As of December 31, 2018, the most recent notification from the OCC categorized TNB as well-capitalized based on the ratios and guidelines described above.

In December 2018, the federal banking agencies issued a final rule to revise their regulatory capital rules to address the Current Expected Credit Losses (CECL) accounting standard, and provide an option to phase in the day-one regulatory capital effects of the adoption of the CECL accounting standard over three years. Under the final rule, an institution that is required to adopt the CECL accounting standard beginning the first quarter of 2020, such as Trustmark, can make a one-time election to phase in the effects of the accounting standard on its regulatory capital calculations, such that the effects of adopting the CECL accounting standard on regulatory capital are fully phased in as of the first quarter of 2023. For additional information regarding Trustmark’s implementation of the CECL accounting standard, see the section captioned “Pending Accounting Pronouncements – ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” included in Note 1 – Significant Accounting Policies – Accounting Policies Recently Adopted and Pending Accounting Pronouncements in Part II. Item 8. – Financial Statements and Supplementary Data of this report.

Payment of Dividends and Stock Repurchases

Trustmark is limited in its ability to pay dividends or repurchase its stock by the FRB, including if doing so would be an unsafe or unsound banking practice. Where a bank holding company intends to declare or pay a dividend that could raise safety and soundness concerns, it generally will be required to inform and consult with the FRB in advance. It is the policy of the FRB that a bank holding company should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the company’s capital needs and overall current and prospective financial condition.

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

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

Anti-Money Laundering Initiatives and Sanctions Compliance

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

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

Other Federal Regulation of Trustmark

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

Regulation of TNB

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

Restrictions on Lending, Insider Transactions and Affiliate Transactions

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

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

Payment of Dividends

The principal source of Trustmark’s cash revenue is dividends from TNB. There are various legal and regulatory provisions that limit the amount of dividends TNB can pay to Trustmark without regulatory approval. Under the National Bank Act, approval of the OCC is required if the total of all dividends declared in any calendar year exceeds the total of TNB’s net income for that year combined

with its retained net income from the preceding two years. Also under the National Bank Act, TNB may not pay any dividends in excess of undivided profits (retained earnings). In addition, subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to the bank holding company or any of its subsidiaries. Further, subsidiary banks of a bank holding company are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of any services to the bank holding company. Moreover, an institution's failure to exceed the capital conservation buffer set forth in the capital rules with common equity Tier 1 capital would result in limitations on an institution's ability to make capital distributions and discretionary bonus payments.

CFPB

The Dodd-Frank Act established the CFPB within the Federal Reserve System as an independent bureau with responsibility for consumer financial protection. The CFPB is responsible for issuing rules, orders and guidance implementing federal consumer financial laws. The CFPB has primary enforcement authority over "very large" insured depository institutions or insured credit unions and their affiliates. An insured depository institution is deemed "very large" if it reports assets of more than $10 billion in its quarterly Call Report for four consecutive quarters. The CFPB has near exclusive supervision authority, including examination authority, over these "very large" institutions and their affiliates to assess compliance with federal consumer financial laws, to obtain information about the institutions' activities and compliance systems and procedures, and to detect and assess risks to consumers and markets. The CFPB has broad authority to prevent "unfair, deceptive or abusive acts or practices" and ensure consistent enforcement of laws so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The CFPB has rulemaking and interpretive authority under the Dodd-Frank Act and other federal consumer financial services laws, as well as broad supervisory, examination and enforcement authority over large providers of consumer financial products and services, such as TNB. TNB's total assets exceeded $10 billion at December 31, 2018 and 2017, and therefore, TNB is subject to CFPB supervision.

In October 2017, the CFPB issued a final rule generally requiring lenders that make certain covered short-term loans, longer-term balloon-payment loans, or longer-term loans with certain costs and features, to reasonably determine that a borrower of a covered loan has the ability to repay such a loan, make certain disclosures to the borrower before attempting to withdraw payment from the borrower's account, forego from making three consecutive attempts to withdraw payments and report covered loans to registered information systems. Most of the requirements of the final rule will take effect in the third quarter of 2019. Based on TNB's current credit portfolio, any covered loans made by TNB are considered exempt "accommodation loans" under the CFPB's final rule, and accordingly, Trustmark does not expect that the final rule will have a material impact on its operations.

Other Federal and State Laws

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

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

enforce regulations prescribed by the CFPB or to secure other remedies.

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

Mortgage Regulation

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

Financial Privacy Laws

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

Debit Interchange Regulation

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

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

FDIC Deposit Insurance Assessments

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

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

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

In the third quarter of 2018, the DIF reserve ratio reached the statutorily required minimum level of 1.35 percent, which ended surcharges on institutions with $10.0 billion or more in assets, such as Trustmark, that had been in effect.

TNB's FDIC assessment expenses declined during 2018 as the lower regular assessment rates and the allowable adjustments more than offset the surcharge of 4.5 cents per $100 of assessment base that had been in effect. In 2018, TNB's expenses related to deposit insurance premiums totaled $9.0 million.

TNB also paid approximately $479 thousand in Financing Corporation (FICO) assessments related to outstanding FICO bonds for which the FDIC serves as collection agent. The bonds issued by FICO are due to mature in 2019. For the quarter ended December 31, 2018, the FICO assessment rate was equal to 0.14 basis points.

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

TNB Subsidiaries

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

In April 2018, the SEC proposed a rule relating to the standards of conduct for financial professionals. The SEC's proposed rule would require broker-dealers to act in the best interest of their retail customers when recommending securities and to provide additional disclosure about the scope and terms of the relationship. The proposed rule would clarify the fiduciary duty that an investment advisor owes to its clients and would specify that investment advisors have an affirmative duty of utmost good faith and full and fair disclosure of all material facts to their investors. It is not clear when or if a final rule or guidance will be adopted and how the comments received might alter the proposed provisions. Management is engaged in a review of the potential impact the SEC's proposed rule may have on the results of operations or financial condition of Trustmark or TNB.

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

Available Information

Trustmark's internet address is www.trustmark.com. Information contained on this website is not a part of this report. Trustmark makes available through this address, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed, or furnished to, the SEC.

Employees

At December 31, 2018, Trustmark employed 2,856 full-time equivalent associates, none of which are represented by a collective bargaining agreement. Trustmark believes its employee relations to be satisfactory.

Executive Officers of the Registrant

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

Gerard R. Host, 64

Trustmark Corporation

President and Chief Executive Officer since January 2011

Trustmark National Bank

President and Chief Executive Officer since January 2011

Louis E. Greer, 64

Trustmark Corporation

Treasurer and Principal Financial Officer since January 2007

Trustmark National Bank

Executive Vice President and Chief Financial Officer since February 2007

Granville Tate, Jr., 62

Trustmark Corporation

Secretary since December 2015

Trustmark National Bank

Executive Vice President, Secretary, General Counsel and Chief Risk Officer since June 2016

Executive Vice President, Secretary and General Counsel from December 2015 to June 2016

Brunini, Grantham, Grower & Hewes, PLLC

Partner from January 1990 to December 2015

Board of Directors from January 2010 to November 2015

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

Monica A. Day, 58

Trustmark National Bank

Executive Vice President and Real Estate Banking Manager since May 2017

Senior Vice President and Corporate Commercial Real Estate Manager from October 2008 to May 2017

Duane A. Dewey, 60

Trustmark National Bank

Chief Operating Officer since January 2019

President – Corporate Banking from September 2011 to December 2018

Robert Barry Harvey, 59

Trustmark National Bank

Executive Vice President and Chief Credit Officer since March 2010

David Kennedy, 43

Trustmark National Bank

Executive Vice President and Chief Information Officer since December 2018

Chief Information Security Consultant from May 2018 to December 2018

Stone Energy Corporation

Chief Technology Officer from July 2013 to May 2018

Director of Information Technology from July 2002 to July 2013

Technology Management Consultant from July 2012 to November 2017

James M. Outlaw, Jr., 66

Trustmark National Bank

Executive Vice President and Chief Administrative Officer since August 2014

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

Thomas C. Owens, 54

Trustmark National Bank

Executive Vice President and Bank Treasurer since September 2013

W. Arthur Stevens, 54

Trustmark National Bank

President – Retail Banking since September 2011

Breck W. Tyler, 60

Trustmark National Bank

President – Mortgage Services since March 2012

C. Scott Woods, 62

Trustmark National Bank

President – Insurance and Wealth Management since November 2017

President – Insurance Services from March 2012 to November 2017

ITEM 1A. RISK FACTORS

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

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

Trustmark's profitability depends to a large extent on net interest income, which is the difference between income on interest-earning assets, such as loans and investment securities, and expense on interest-bearing liabilities, such as deposits and borrowings. Trustmark is exposed to interest rate risk in its core banking activities of lending and deposit taking, since assets and liabilities reprice at different times and by different amounts as interest rates change. Trustmark is unable to predict changes in market interest rates, which are affected by many factors beyond Trustmark's control, including inflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. During December 2018, the FRB increased the target range for the federal funds rate for the fourth time in 2018 as anticipated. The FRB also continues to reduce the size of its

balance sheet. It is not possible to predict the impact, if any, on market interest rates (or on markets generally) of efforts by the FRB to continue to reduce the size of its balance sheet.

Financial simulation models are the primary tools used by Trustmark to measure interest rate exposure. Using a wide range of scenarios, Management is provided with extensive information on the potential impact to net interest income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Trustmark's balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve and the changing composition of Trustmark's balance sheet, resulting from both strategic plans and customer behavior. In addition, the model incorporates Management's assumptions and expectations regarding such factors as loan and deposit growth, pricing, prepayment speeds and spreads between interest rates. Trustmark's simulation model using static balances at December 31, 2018, estimated that in the event of a hypothetical 200 basis point increase in interest rates, net interest income may decrease 0.9%, while a hypothetical 100 basis point increase in interest rates, may decrease net interest income 0.5%. In the event of a hypothetical 100 basis point decrease in interest rates using static balances at December 31, 2018, it is estimated net interest income may decrease by 1.2%.

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

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

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

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

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

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

The economy continued to show moderate signs of improvement in 2018; however, economic concerns remain as a result of the cumulative weight of volatility in crude oil prices and uncertain growth prospects in Russia and other emerging markets, combined with uncertainty regarding the possibility of further tightening of the monetary policy by the FRB and the potential market impact of efforts by the FRB to reduce the size of its balance sheet, the consequences of the decision of the United Kingdom to exit the European Union, the potential impact on the economy of the current presidential administration's policies, United States trade relations and the recent shut-down of the United States Government. Doubts surrounding the near-term direction of global markets,

and the potential impact of these trends on the United States economy, are expected to persist for the near term. While Trustmark's customer base is wholly domestic, international economic conditions affect domestic conditions, and thus may have an impact upon Trustmark's financial condition or results of operations. While domestic demand for loans has improved, particularly for commercial loans, further meaningful gains will depend on sustained economic growth. Strategic risk, including threats to business models from rising rates and modest economic growth, remains high. Management's ability to plan, prioritize and allocate resources in this new environment will be critical to Trustmark's ability to sustain earnings that will attract capital. Because of the complexities presented by current economic conditions, Management will continue to be challenged in identifying alternative sources of revenue, prudently diversifying assets, liabilities and revenue and effectively managing the costs of compliance.

Notwithstanding recent increases in the target rate for federal funds by the FRB, interest rates remain within a low range that, when combined with the extended period of historically low interest rates in recent years, continue to place pressure on net interest margins for Trustmark (as well as its competitors). The FRB has indicated that further increases in rates in 2019 will depend on market conditions. Further increases in interest rates will place competitive pressures on the deposit cost of funds. It is not possible to predict the pace and magnitude of rising interest rates, or the impact rising rates will have on Trustmark's results of operations.

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

- Market developments and the resulting economic pressure on consumers may affect consumer confidence levels and may cause increases in delinquencies and default rates, which, among other effects, could further affect Trustmark's charge-offs and provision for loan losses.
- Loan performance could experience a significantly extended deterioration or loan default levels could accelerate, foreclosure activity could significantly increase, or Trustmark's assets (including loans and investment securities) could materially decline in value, any one of which, or any combination of more than one of which, could have a material adverse effect on Trustmark's financial condition or results of operations.
- Management's ability to measure the fair value of Trustmark's assets could be adversely affected by market disruptions that could make valuation of assets more difficult and subjective. If Management determines that a significant portion of its assets have values that are significantly below their recorded carrying value, Trustmark could recognize a material charge to earnings in the quarter during which such determination was made, Trustmark's capital ratios would be adversely affected by any such charge, and a rating agency might downgrade Trustmark's credit rating or put Trustmark on credit watch.
- The price per barrel of crude oil remained volatile during 2018. As of December 31, 2018, energy-related LHFI represented approximately 2.0% of Trustmark's total LHFI portfolio, and consisted principally of loans within the oilfield services and midstream segments. Additionally, as of December 31, 2018, approximately 7.0% of Trustmark's energy-related LHFI, or 0.1% of Trustmark's total LHFI portfolio, were classified as nonperforming or nonaccrual. Trustmark has no loan exposure where the source of repayment, or the underlying security of such exposure, is tied to the realization of value from energy reserves. Nonetheless, if oil prices fall below current levels for an extended period of time, Trustmark could experience weakening or increased losses within its energy-related LHFI portfolio.

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

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

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

Additionally, Trustmark may rely on information furnished by or on behalf of customers and counterparties in deciding whether to extend credit or enter into other transactions. This information could include financial statements, credit reports, business plans, and other information. Trustmark may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other information could have a material adverse impact on Trustmark's business, financial condition, and results of operations.

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

Liquidity refers to Trustmark's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demand for loans and deposit withdrawals, funding operating costs and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ or when assets cannot be liquidated at fair market value as needed. Trustmark obtains funding through deposits and various short-term and long-term wholesale borrowings, including federal funds purchased and securities sold under agreements to repurchase, the Federal Reserve Discount Window (Discount Window) and Federal Home Loan Bank (FHLB) advances. Any significant restriction or disruption of Trustmark's ability to obtain funding from these or other sources could have a negative effect on Trustmark's ability to satisfy its current and future financial obligations, which could materially affect Trustmark's financial condition or results of operations.

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

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

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

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

Trustmark is subject to stringent capital requirements.

Under the regulatory capital rules of the FRB, OCC, and FDIC that implement a set of capital requirements issued by the Basel Committee on Banking Supervision known as Basel III, Trustmark and TNB are required to maintain a common equity Tier 1 capital to risk-weighted assets ratio of 7.0% (a minimum of 4.5% plus a capital conservation buffer of 2.5%), a Tier 1 capital to risk-weighted assets ratio of 8.5% (a minimum of 6.0% plus a capital conservation buffer of 2.5%), a total capital to risk-weighted assets ratio of 10.5% (a minimum of 8.0% plus a capital conservation buffer of 2.5%) and a leverage ratio of Tier 1 capital to total consolidated assets of 4.0%. In addition, for TNB to be "well-capitalized" under the banking agencies' prompt corrective action framework, it must have a common equity Tier 1 capital ratio of 6.5%, a Tier 1 capital ratio of 8.0%, a total capital ratio of 10.0% and a leverage ratio of 5.0%, and must not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by its primary federal regulator to meet and maintain a specific capital level for any capital measure. Certain capital requirements, such as the capital conservation buffer, became fully phased in on January 1, 2019.

The capital rules also include stringent criteria for capital instruments to qualify as Tier 1 or Tier 2 capital. For instance, the rules effectively disallow newly-issued trust preferred securities to be a component of a holding company's Tier 1 capital. Trustmark will continue to count $60.0 million in outstanding trust preferred securities issued by the Trust as Tier 1 capital up to the regulatory limit, as permitted by a grandfather provision in the capital rules, but this grandfather provision may cease to apply if Trustmark grows to $15 billion or more in total assets as a result of an acquisition of a depository institution holding company.

Additionally, the Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which implements CECL as a new impairment model based on expected credit losses, will require Trustmark to recognize all expected credit losses over the life of a loan based on historical experience, current conditions and reasonable and supportable forecasts. CECL generally is expected to result in earlier recognition of credit losses, which would increase reserves and decrease capital. Trustmark cannot predict the impact of CECL on its reserves and capital; however, the impact could be material.

The regulatory capital rules applicable to Trustmark and TNB may continue to evolve as a result of new requirements established by the Basel Committee on Banking Supervision or legislative, regulatory or accounting changes in the United States. Management cannot predict the effect that any changes to current capital requirements would have on Trustmark and TNB.

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

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

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

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

When Trustmark consummates an acquisition, a portion of the purchase price is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2018, goodwill and other identifiable intangible assets were $390.7 million. Under current accounting standards, if Trustmark determines goodwill or intangible assets are impaired, Trustmark would be required to write down the carrying value of these assets. Trustmark's annual goodwill impairment evaluation performed during the fourth quarter of 2018 indicated no impairment of goodwill for any reporting segment. Management cannot provide

assurance, however, that Trustmark will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on Trustmark's shareholders' equity and financial condition and could cause a decline in Trustmark's stock price.

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

As business necessitates, Trustmark forecloses on and takes title to real estate serving as collateral for loans. At December 31, 2018, Trustmark held $34.7 million of other real estate, compared to $43.2 million at December 31, 2017. The amount of other real estate held by Trustmark may increase in the future as a result of, among other things, business combinations, increased uncertainties in the housing market or increased levels of credit stress in residential real estate loan portfolios. Increased other real estate balances could lead to greater expenses as Trustmark incurs costs to manage, maintain and dispose of real properties as well as to remediate any environmental cleanup costs incurred in connection with any contamination discovered on real property on which Trustmark has foreclosed and to which Trustmark has taken title. As a result, Trustmark's earnings could be negatively affected by various expenses

associated with other real estate owned, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with real property ownership, as well as by the funding costs associated with other real estate assets. The expenses associated with holding a significant amount of other real estate could have a material adverse effect on Trustmark's financial condition or results of operations.

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

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

On a quarterly basis, Trustmark evaluates investments and other assets for impairment indicators. As of December 31, 2018, gross unrealized losses on temporarily impaired securities totaled $64.4 million. Trustmark may be required to record impairment charges if these investments suffer a decline in value that is other-than-temporary. If it is determined that a significant impairment has occurred, Trustmark would be required to charge against earnings the credit-related portion of the other-than-temporary impairment, which could have a material adverse effect on results of operations in the period in which a write-off, if any, occurs.

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

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

Trustmark operates in a highly competitive financial services industry.

Trustmark faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have greater financial resources. Such competitors primarily include national and regional banks, as well as community banks within the various markets in which Trustmark operates. At this time, major international banks do not materially compete directly with Trustmark in its markets, although they may do so in the future. Trustmark also faces competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Additionally, fintech developments, such as blockchain and other distributed ledger technologies, have the potential to disrupt the financial industry and change the way banks do business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and

continued consolidation.

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

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

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

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

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

The soundness of other financial institutions could adversely affect Trustmark.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trustmark's accounting policies and methods are fundamental to how Trustmark records and reports its financial condition and results of operations. From time to time, the FASB changes the financial accounting and reporting standards that govern the preparation of Trustmark's financial statements. The most recent economic recession resulted in increased scrutiny of accounting standards by regulators and legislators, particularly as they relate to fair value accounting principles. In addition, ongoing efforts to achieve convergence between U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards may result in changes to GAAP. Any such changes can be difficult to predict and can materially affect how Trustmark records and reports its financial condition or results of operations. For example, in June 2016, the FASB issued ASU 2016-13, which replaces the current incurred loss impairment methodology with a methodology that reflects all current expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Trustmark intends to adopt ASU 2016-13 during the first quarter of 2020, and adoption of this ASU could materially affect its allowance for loan losses methodology, financial condition, capital levels and results of operations, including expenses Trustmark may incur in implementing this ASU. For additional details regarding recently adopted and pending accounting pronouncements, see Note 1 – Significant Accounting Policies included in Part II. Item 8. - Financial Statements and Supplementary Data of this report.

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

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

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

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

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

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

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

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

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

Trustmark’s ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by its reputation. Public perception of the financial services industry declined as a result of the economic downturn and related government response. Trustmark faces increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to Trustmark’s reputation can also arise from other sources, including employee misconduct, actual or perceived

unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of its information systems and the activities of its clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on Trustmark's reputation. Trustmark could also suffer significant reputational harm if it fails to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as Trustmark expands its business activities through more numerous transactions, obligations and interests with and among its clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with Trustmark, which could adversely affect Trustmark's businesses.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Trustmark's principal offices are housed in its complex located in downtown Jackson, Mississippi and owned by TNB. Approximately 239,000 square feet, or 91%, of the available space in the main office building is allocated to bank use with the remainder occupied or available for occupancy by tenants on a lease basis. As of December 31, 2018, Trustmark, through TNB, also operated 181 full-service branches, 14 limited-service branches and an ATM network, which included 178 ATMs and four interactive teller machines (ITMs) at on-premise locations and 61 ATMs and three ITMs located at off-premise locations. In addition, Trustmark's Mortgage Banking Group utilized four off-site locations, the Wealth Management Segment utilized one off-site location and the Insurance Segment utilized five off-site locations. Trustmark leases 71 of its 269 locations with the remainder being owned. Trustmark believes its properties are suitable and adequate to operate its financial services business.

ITEM 3. LEGAL PROCEEDINGS

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

In November 2009, the lawsuit was removed to federal court by certain defendants and then transferred by the United States Panel on Multidistrict Litigation to federal court in the Northern District of Texas (Dallas) where multiple Stanford related matters are being consolidated for pre-trial proceedings. In May 2010, all defendants (including TNB) filed motions to dismiss the lawsuit. In August 2010, the court authorized and approved the formation of an Official Stanford Investors Committee (OSIC) to represent the interests of Stanford investors and, under certain circumstances, to file legal actions for the benefit of Stanford investors. In December 2011, the OSIC filed a motion to intervene in this action. In September 2012, the district court referred the case to a magistrate judge for hearing and determination of certain pretrial issues. In December 2012, the court granted the OSIC's motion to intervene, and the OSIC filed an Intervenor Complaint against one of the other defendant financial institutions. In February 2013, the OSIC filed a second Intervenor Complaint that asserts claims against TNB and the remaining defendant financial institutions. The OSIC seeks to recover: (i) alleged fraudulent transfers in the amount of the fees each of the defendants allegedly received from Stanford Financial Group, the profits each of the defendants allegedly made from Stanford Financial Group deposits, and other monies each of the defendants allegedly received from Stanford

Financial Group; (ii) damages attributable to alleged conspiracies by each of the defendants with the Stanford Financial Group to commit fraud and/or aid and abet fraud and conversion on the asserted grounds that the defendants knew or should have known the Stanford Financial Group was conducting an illegal and fraudulent scheme; and (iii) punitive damages. The OSIC did not quantify damages.

In July 2013, all defendants (including TNB) filed motions to dismiss the OSIC's claims. In March 2015, the court entered an order authorizing the parties to conduct discovery regarding class certification, 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 Accounting Standards Codification (ASC) Topic 450-20, "Loss Contingencies," Trustmark will establish an accrued liability for litigation matters when those matters present loss contingencies that are both probable and reasonably estimable. At the present time, Management believes, based on the advice of legal counsel and Management's evaluation, that a loss in any such proceeding is not probable and reasonably estimable. All matters will continue to be monitored for further

developments that would make such loss contingency both probable and reasonably estimable. In view of the inherent difficulty of predicting the outcome of legal proceedings, Trustmark cannot predict the eventual outcomes of the currently pending matters or the timing of their ultimate resolution. Management currently believes, however, based upon the advice of legal counsel and Management's evaluation and after taking into account its current insurance coverage, that the legal proceedings currently pending should not have a material adverse effect on Trustmark's consolidated financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Common Stock Prices and Dividends

Trustmark's common stock is listed on the Nasdaq Stock Market and is traded under the symbol TRMK.

Trustmark paid quarterly cash dividends to shareholders of $0.23 per share, or $0.92 per share annually, in 2018. As a component of return to common shareholders, Trustmark intends to pay cash dividends when corporate financial performance and capital strength allow it to do so. All dividend payments must be approved and declared by the Board of Directors of Trustmark and are required to be in compliance with all applicable laws and regulations.

At January 31, 2019, there were approximately 3,500 registered shareholders of record and approximately 22,500 beneficial account holders of shares in nominee name of Trustmark's common stock. Other information required by this item can be found in Note 18 - Shareholders' Equity included in Part II. Item 8. - Financial Statements and Supplementary Data of this report.

Stock Repurchase Program

On March 11, 2016, the Board of Directors of Trustmark authorized a stock repurchase program under which $100.0 million of Trustmark's outstanding common stock may be acquired through March 31, 2019. The shares may be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Trustmark repurchased approximately 2.0 million shares of its common stock valued at approximately $62.4 million during the year ended December 31, 2018. Trustmark repurchased none of its common stock during the year ended December 31, 2017.

Trustmark repurchased approximately 735 thousand shares of its common stock valued at approximately $22.1 million during the month ended January 31, 2019. As of January 31, 2019, Trustmark had approximately $14.7 million of stock repurchase authority remaining under the stock repurchase program.

Performance Graph

The following graph compares Trustmark's annual percentage change in cumulative total return on common shares over the past five years with the cumulative total return of companies comprising the Nasdaq market value index and the Morningstar Banks – Regional – US index. The Morningstar Banks – Regional – US index is an industry index published by Morningstar and consists of 1,000 large, regional, diverse financial institutions serving the corporate, government and consumer needs of retail banking, investment banking, trust management, credit cards and mortgage banking in the United States. This presentation assumes that $100 was invested in shares of the relevant issuers on December 31, 2013, and that dividends received were immediately invested in additional shares. The graph plots the value of the initial $100 investment at one-year intervals for the fiscal years shown.

Company	2013	2014	2015	2016	2017	2018
Trustmark	100.00	95.03	92.73	148.48	136.57	125.34
Morningstar Banks - Regional - US	100.00	107.70	111.61	150.53	163.46	137.08
NASDAQ Composite-Total Return	100.00	114.75	122.74	133.62	173.22	168.30

ITEM 6. SELECTED FINANCIAL DATA

The following unaudited consolidated financial data is derived from Trustmark's audited financial statements as of and for the five years ended December 31, 2018 ($ in thousands, except per share data). The data should be read in conjunction with Part II. Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. – Financial Statements and Supplementary Data.

Years Ended December 31,	2018	2017	2016	2015	2014
Consolidated Statements of Income					
Total interest income	$485,612	$449,795	$412,080	$412,225	$426,882
Total interest expense	66,192	42,245	24,547	20,460	21,546
Net interest income	419,420	407,550	387,533	391,765	405,336
Provision for loan losses, LHFI	17,993	15,094	10,957	8,375	1,211
Provision for loan losses, acquired loans	(1,005)	(7,395)	3,757	3,425	6,171
Noninterest income	184,836	184,663	173,943	173,149	173,142
Noninterest expense	415,415	430,169	407,298	401,662	409,005
Income before income taxes	171,853	154,345	139,464	151,452	162,091
Income taxes	22,269	48,715	31,053	35,414	38,529
Net Income	$149,584	$105,630	$108,411	$116,038	$123,562
Revenue (1)					
Total revenue	$604,256	$592,213	$561,476	$564,914	$578,478
Per Share Data					
Basic earnings per share	$2.22	$1.56	$1.60	$1.72	$1.83
Diluted earnings per share	2.21	1.56	1.60	1.71	1.83
Cash dividends per share	0.92	0.92	0.92	0.92	0.92
Performance Ratios					
Return on average equity	9.43%	6.77%	7.14%	7.94%	8.83%
Return on average tangible equity	12.86%	9.39%	9.99%	11.36%	12.97%
Return on average assets	1.11%	0.77%	0.84%	0.95%	1.03%
Average equity/average assets	11.78%	11.38%	11.73%	11.90%	11.63%
Net interest margin (fully taxable equivalent)	3.54%	3.48%	3.53%	3.78%	4.03%
Dividend payout ratio	41.44%	58.97%	57.50%	53.49%	50.27%
Credit Quality Ratios (2)					
Net charge-offs (recoveries)/average loans	0.19%	0.11%	0.10%	0.15%	-0.03%
Provision for loan losses/average loans	0.20%	0.18%	0.14%	0.12%	0.02%
Nonperforming loans/total loans (incl LHFS)	0.69%	0.77%	0.61%	0.76%	1.21%
Nonperforming assets/total loans (incl LHFS) plus other real estate	1.07%	1.26%	1.38%	1.81%	2.57%
Allowance for loan losses/total loans (excl LHFS)	0.90%	0.90%	0.91%	0.95%	1.08%

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

(2) Excludes Acquired Loans and Covered Other Real Estate.

29

December 31,	2018		2017		2016		2015		2014	
Consolidated Balance Sheets										
Total assets	$13,286,460		$13,797,953		$13,352,333		$12,678,896		$12,250,633	
Securities	2,721,456		3,295,121		3,515,325		3,533,240		3,545,252	
Total loans (incl LHFS and acquired loans)	9,096,599		9,011,996		8,299,387		7,641,985		7,131,074	
Deposits	11,364,411		10,577,512		10,056,012		9,588,230		9,698,358	
Total shareholders' equity	1,591,453		1,571,701		1,520,208		1,473,057		1,419,940	
Stock Performance										
Market value - close	$28.43		$31.86		$35.65		$23.04		$24.54	
Book value	24.17		23.20		22.48		21.80		21.04	
Tangible book value	18.24		17.35		16.76		15.98		15.13	
Capital Ratios										
Total equity/total assets	11.98	%	11.39	%	11.39	%	11.62	%	11.59	%
Tangible equity/tangible assets	9.31	%	8.77	%	8.74	%	8.79	%	8.62	%
Tangible equity/risk-weighted assets	11.11	%	11.13	%	11.39	%	11.68	%	12.17	%
Tier 1 leverage ratio	10.26	%	9.67	%	9.90	%	10.03	%	9.63	%
Tier 1 common risk-based capital ratio - BASEL I	—		—		—		—		12.75	%
Common equity tier 1 risk-based capital ratio - BASEL III	11.77	%	11.77	%	12.16	%	12.57	%	—	
Tier 1 risk-based capital ratio	12.33	%	12.33	%	12.76	%	13.21	%	13.47	%
Total risk-based capital ratio	13.07	%	13.10	%	13.59	%	14.07	%	14.56	%

The following unaudited tables represent Trustmark’s summary of quarterly operations for the years ended December 31, 2018 and 2017 ($ in thousands, except per share data):

2018	1Q	2Q	3Q	4Q
Interest income	$115,640	$120,266	$124,770	$124,936
Interest expense	13,547	15,102	17,787	19,756
Net interest income	102,093	105,164	106,983	105,180
Provision for loan losses, LHFI	3,961	3,167	8,673	2,192
Provision for loan losses, acquired loans	150	(441)	(467)	(247)
Noninterest income	46,793	47,391	47,093	43,559
Noninterest expense	102,465	103,800	105,223	103,927
Income before income taxes	42,310	46,029	40,647	42,867
Income taxes	5,480	6,216	4,394	6,179
Net income	$36,830	$39,813	$36,253	$36,688
Earnings per share				
Basic	$0.54	$0.59	$0.54	$0.55
Diluted	0.54	0.59	0.54	0.55

2017	1Q	2Q	3Q	4Q
Interest income	$104,906	$111,776	$116,114	$116,999
Interest expense	7,316	9,772	12,202	12,955

Net interest income	97,590	102,004	103,912	104,044
Provision for loan losses, LHFI	2,762	2,921	3,672	5,739
Provision for loan losses, acquired loans	(1,605)	(2,564)	(1,653)	(1,573)
Noninterest income	46,033	50,190	44,480	43,960
Noninterest expense	102,057	122,075	103,086	102,951
Income before income taxes	40,409	29,762	43,287	40,887
Income taxes	9,161	5,727	8,708	25,119
Net income	$31,248	$24,035	$34,579	$15,768
Earnings per share				
Basic	$0.46	$0.35	$0.51	$0.23
Diluted	0.46	0.35	0.51	0.23

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

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

Executive Overview

During 2018, Trustmark focused on its strategic initiatives of profitably growing each of its financial services businesses, optimizing its balance sheet, deploying capital through stock repurchases and maintaining disciplined expense management. Trustmark continued to achieve solid financial results with total revenue of $148.7 million and $604.3 million for the three months and year ended December 31, 2018, respectively. Trustmark continued to maintain and expand customer relationships as reflected by growth in the LHFI portfolio of $265.9 million, or 3.1%, and growth in deposits of $786.9 million, or 7.4%, during the year ended December 31, 2018. Credit quality remained strong and continued to be an important contributor to Trustmark's financial success. Trustmark is committed to managing the franchise for the long term, supporting investments to promote profitable revenue growth, realigning delivery channels to support changing customer preferences as well as reengineering and efficiency opportunities to enhance long-term shareholder value. Trustmark's capital position remained solid, reflecting the consistent profitability of its diversified financial services businesses. Trustmark's Board of Directors declared a quarterly cash dividend of $0.23 per share. The dividend is payable March 15, 2019, to shareholders of record on March 1, 2019.

Financial Highlights

Trustmark reported net income of $36.7 million, or basic and diluted earnings per share (EPS) of $0.55, for the fourth quarter of 2018, compared to $15.8 million, or basic and diluted EPS of $0.23, in the fourth quarter of 2017. The increase in net income when the fourth quarter of 2018 is compared to the same time period in 2017 was principally due to an one-time charge to income taxes resulting from the re-measurement of Trustmark's net deferred tax assets due to the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Reform Act) and the elimination of a deferred tax valuation allowance related to a prior merger, which collectively reduced net income in the fourth quarter of 2017 by $17.0 million, or $0.25 per diluted share. Excluding these non-routine transactions, net income for the fourth quarter of 2017 totaled $32.7 million, or diluted EPS of $0.48. The increase in net income, excluding the non-routine transactions, when the fourth quarter of 2018 is compared to the same time period in 2017 was principally due to a decrease in the total provision for loan losses, net of $2.2 million, or 53.3%. Trustmark's reported performance during the quarter ended December 31, 2018, produced a return on average tangible equity of 12.41%, a return on average assets of 1.09%, an average equity to average assets ratio of 11.95% and a dividend payout ratio of 41.82%, compared to a return on average tangible equity of 5.60%, a return on average assets of 0.45%, an average equity to average assets ratio of 11.40% and a dividend payout ratio of 100.00% during the quarter ended December 31, 2017. For a reconciliation between the reported net income and the net income adjusted for significant non-routine transactions as well as select financial ratios, please see the section captioned "Significant Non-routine Transactions."

Revenue, which is defined as net interest income plus noninterest income, totaled $148.7 million for the quarter ended December 31, 2018 compared to $148.0 million for the quarter ended December 31, 2017, an increase of $735 thousand, or 0.5%. The increase in total revenue for the fourth quarter of 2018 was principally the result of an increase in interest and fees on LHFS and LHFI and a decrease in other interest expense, partially offset by an increase in interest expense on deposits and declines in interest and fees on acquired loans and interest on total securities.

Interest and fees on LHFS and LHFI increased $13.5 million, or 14.8%, when the fourth quarter of 2018 is compared to the same time period in 2017, primarily due to an increase in the LHFI portfolio and higher interest rates. LHFI totaled $8.836 billion at December 31, 2018 compared to $8.570 billion at December 31, 2017, an increase of $265.9 million, or 3.1%, primarily due to net growth in LHFI secured by real estate in Trustmark's Alabama, Mississippi and

Florida market regions. Other interest expense for the fourth quarter of 2018 decreased $3.7 million, or 80.4%, when compared to the same time period in 2017, principally due to a decrease in interest expense on short-term FHLB advances as a result of a $900.0 million decline in outstanding short-term FHLB advances with the FHLB of Dallas. Interest expense on deposits for the three months ended December 31, 2018 increased $10.1 million when compared to the same time period in 2017, principally due to rising interest rates in general, accompanied by increases in average balances of all categories of interest-bearing accounts. Interest and fees on acquired loans decreased $3.2 million, or 50.3%, when the fourth quarter of 2018 is compared to the same time period in 2017, principally due to declines in accretion income, primarily related to the loans acquired in the BancTrust merger, as well as decreases in deferred fee amortization and other interest and fees related to loans acquired in the Reliance merger, partially offset by an increase in loan recovery from settlement of debt related to loans acquired in the BancTrust merger. Total interest on securities declined $3.0 million, or 15.9%, when the fourth quarter of 2018 is compared to the same time period in 2017, principally due to the run-off of maturing investment securities.

Trustmark's provision for loan losses, LHFI for the three months ended December 31, 2018 totaled $2.2 million, a decrease of $3.5 million, or 61.8%, when compared to a provision for loan losses, LHFI of $5.7 million for the three months ended December 31, 2017. Please see the section captioned "Provision for Loan Losses, LHFI," for additional information regarding the provision for loan losses, LHFI. The provision for loan losses, acquired loans for the three months ended December 31, 2018 totaled a negative $247 thousand, a decrease of $1.3 million, or 84.3%, when compared to a negative provision of $1.6 million for the three months ended December 31, 2017, principally due to changes in expectations based on the periodic re-estimations performed during the respective periods and a decline in acquired loan balances. Please see the section captioned "Provision for Loan Losses, Acquired Loans," for additional information regarding the provision for loan losses, acquired loans. In total, the provision for loan losses, net was $1.9 million for the fourth quarter of 2018, a decrease of $2.2 million, or 53.3%, when compared to the same time period in 2017.

For the year ended December 31, 2018, Trustmark reported net income of $149.6 million, or basic and diluted EPS of $2.22 and $2.21, respectively, compared to $105.6 million, or basic and diluted EPS of $1.56, for the year ended December 31, 2017 and $108.4 million, or basic and diluted EPS of $1.60 for the year ended December 31, 2016. The increase in net income when 2018 is compared to 2017 was principally due to the decrease in noninterest expense, primarily due to non-routine expenses related to the defined benefit pension plan termination and the Reliance merger incurred during the second quarter of 2017, and a decrease in income taxes. During the fourth quarter of 2017, Trustmark incurred non-routine income tax expenses of $17.0 million related to the re-measurement of Trustmark's net deferred tax assets due to the enactment of the Tax Reform Act and the elimination of a deferred tax valuation allowance related to a prior merger. During the second quarter of 2017, Trustmark received $4.9 million in non-routine, nontaxable proceeds related to life insurance acquired in a previous acquisition. Additionally, Trustmark incurred non-routine transaction expenses of $17.6 million related to the termination of the defined benefit pension plan and $3.2 million related to the completion of the Reliance merger during the second quarter of 2017. Excluding these non-routine transactions, net income for 2017 totaled $130.6 million, or diluted EPS of $1.92. Trustmark's reported performance for the year ended December 31, 2018, produced a return on average tangible equity of 12.86%, a return on average assets of 1.11% and a dividend payout ratio of 41.44%, compared to a return on average tangible equity of 9.39%, a return on average assets of 0.77% and a dividend payout ratio of 58.97% for the year ended December 31, 2017 and a return on average tangible equity of 9.99%, a return on average assets of 0.84% and a dividend payout ratio of 57.50% for the year ended December 31, 2016. Trustmark's average equity to average assets ratio was 11.78%, 11.38% and 11.73% for the years ended December 31, 2018, 2017 and 2016, respectively. For a reconciliation between the reported net income and the net income adjusted for significant non-routine transactions as well as select financial ratios, please see the section captioned "Significant Non-routine Transactions."

Revenue totaled $604.3 million for the year ended December 31, 2018, compared to $592.2 million and $561.5 million for the years ended December 31, 2017 and 2016, respectively. The increase in total revenue for 2018 compared to 2017 was principally the result of increases in interest and fees on LHFS and LHFI and other interest income partially offset by an increase in total interest expense and decreases in interest on total securities and interest and fees on acquired loans.

Interest and fees on LHFS and LHFI for 2018 increased $51.3 million, or 14.9%, compared to 2017, primarily due to the year-over-year increase in the LHFI portfolio and higher interest rates. Other interest income for 2018 increased $2.7 million when compared to 2017 primarily due to an increase in interest on interest-bearing deposits due from depository institutions. Total interest expense for 2018 increased $23.9 million, or 56.7%, when compared to 2017 primarily due to an increase in interest on deposits partially offset by a decline in other interest expense. Interest expense on deposits for 2018 increased $31.2 million when compared to 2017, principally due to rising rates in general, accompanied by increases in average balances of all categories of interest-bearing deposits. Other interest expense decreased $7.9 million, or 51.4%, when the year ended December 31, 2018 is compared to the year ended December 31, 2017, principally due to a decrease in interest expense on short-term FHLB advances as a result of a $900.0 million decline in outstanding short-term FHLB advances with the FHLB of Dallas. Interest on total securities for 2018 declined $10.9 million, or 13.7%, compared to 2017, principally due to the run-off of maturing investment

securities. Interest and fees on acquired loans for 2018 decreased $7.4 million, or 30.1%, compared to 2017, primarily due to declines in accretion income, principally related to the loans acquired in the BancTrust merger, as well as decreases in loan recovery from settlement of debt, deferred fee amortization and other interest and fees related to loans acquired in the Reliance merger, partially offset by an increase in loan recovery from settlement of debt related to loans acquired in the BancTrust merger.

Trustmark's provision for loan losses, LHFI, for 2018 totaled $18.0 million, an increase of $2.9 million, or 19.2%, when compared to a provision for loan losses, LHFI of $15.1 million for 2017. Please see the section captioned "Provision for Loan Losses, LHFI," for additional information regarding the provision for loan losses, LHFI. The provision for loan losses, acquired loans for 2018 totaled a negative $1.0 million, a decrease of $6.4 million, or 86.4%, when compared to a negative provision of $7.4 million for 2017 principally due to changes in expectations based on the periodic re-estimations performed during the respective periods and a decline in acquired loan balances. Please see the section captioned "Provision for Loan Losses, Acquired Loans," for additional information regarding the provision for loan losses, acquired loans. In total, the provision for loan losses, net was $17.0 million for 2018, an increase of $9.3 million when compared to 2017.

At December 31, 2018, nonperforming assets, excluding acquired loans, totaled $96.3 million, a decrease of $14.5 million, or 13.1%, compared to December 31, 2017 due to declines in other real estate as well as nonaccrual LHFI. Other real estate declined $8.6 million, or 19.8%, during 2018 primarily due to properties sold in Trustmark's Florida, Alabama, Mississippi and Tennessee market regions partially offset by new properties foreclosed in those same market regions. Total nonaccrual LHFI were $61.6 million at December 31, 2018, representing a decrease of $6.0 million, or 8.8%, relative to December 31, 2017 principally due to resolution of three large problem credits in the Mississippi and Texas market regions partially offset by three credits moving to nonaccrual status in the Mississippi and Tennessee market regions during 2018. The percentage of loans, excluding acquired loans, that are 30 days or more past due and nonaccrual LHFI increased in 2018 to 1.56% compared to 1.53% in 2017 and 1.33% in 2016.

Both classified and criticized LHFI balances remain at low levels and continue to reflect strong credit quality. As of December 31, 2018, classified LHFI balances decreased $66.1 million, or 31.1%, while criticized LHFI balances decreased $70.4 million, or 27.7%, when compared to balances at December 31, 2017. All of the credits have been appropriately reserved.

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

Total deposits were $11.364 billion at December 31, 2018, an increase of $786.9 million, or 7.4% compared to December 31, 2017, primarily due to growth in interest-bearing deposits. During 2018, noninterest-bearing deposits decreased $40.5 million, or 1.4%, primarily due to a decline in commercial demand deposit accounts partially offset by growth in public demand deposit accounts, while interest-bearing deposits increased $827.4 million, or 10.9%, principally due to growth in commercial and public interest checking accounts, consumer and commercial money market deposit accounts and consumer and public certificates of deposits, reflecting increases in interest rates in general.

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposits growth. Short-term borrowings totaled $129.5 million at December 31, 2018, a decrease of $1.311 billion, or 91.0%, when compared to December 31, 2017, primarily due to a $900.0 million decline in short-term FHLB advances with the FHLB of Dallas and a $330.0 million decline in upstream federal funds purchased, as a result of the growth in deposits out-pacing the growth in LHFI and the run-off of maturing investment securities.

Critical Accounting Policies

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

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

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

Allowance for Loan Losses, LHFI

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

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

many of these estimates, assumptions and judgments, it is not possible to provide meaningful estimates of the impact of any such potential shifts.

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

Acquired Loans

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

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

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

Mortgage Servicing Rights (MSR)

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

The fair value of the MSR is determined using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee

income and other ancillary income such as late fees. Management reviews all significant assumptions quarterly. Mortgage loan prepayment speeds, a key assumption in the model, is the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate used to determine the present value of estimated future net servicing income, another key assumption in the model, is an estimate of the required rate of return investors in the market would require for an asset with similar risk. Both assumptions can, and generally will, change as market conditions and interest rates change.

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

At December 31, 2018, the MSR fair value was approximately $95.6 million. The impact on the MSR fair value of either a 10% adverse change in prepayment speeds or a 100 basis point increase in discount rates at December 31, 2018, would be a decline in fair

value of approximately $3.3 million and $3.7 million, respectively. Changes of equal magnitude in the opposite direction would produce similar increases in fair value in the respective amounts.

Goodwill and Identifiable Intangible Assets

Trustmark records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value as required by FASB ASC Topic 805. The carrying amount of goodwill at December 31, 2018 totaled $334.6 million for the General Banking Segment and $45.0 million for the Insurance Segment, a consolidated total of $379.6 million. Trustmark's goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Trustmark's identifiable intangible assets, which totaled $11.1 million at December 31, 2018, are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount.

The initial recording and subsequent impairment testing of goodwill requires subjective judgments concerning estimates of the fair value of the acquired assets. The goodwill impairment test is performed in two phases. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure, or a second step, compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Trustmark performed an annual impairment test of goodwill for reporting units contained in both the General Banking and Insurance Segments as of October 1, 2018, 2017, and 2016, respectively, which indicated that no impairment charge was required. The impairment test for the General Banking Segment utilized valuations based on comparable deal values for financial institutions while the test for the Insurance Segment utilizes varying valuation scenarios for the multiple of earnings before interest, income taxes, depreciation and amortization method based on recent acquisition activity. Based on this analysis, Trustmark concluded that the fair value of the reporting units exceeded the carrying value for both the General Banking Segment and the Insurance Segment; therefore, no impairment charge was required. Significant changes in future profitability and value of its reporting units could affect Trustmark's impairment evaluation.

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

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

Other Real Estate

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

periodic revaluation of the property are charged against a reserve specific to other real estate or to noninterest expense in other real estate expense if a reserve does not exist. Significant judgments and complex estimates are required in estimating the fair value of other real estate, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate.

Defined Benefit Plans

Trustmark's plan assets, projected benefit liabilities and net periodic benefit cost are determined utilizing actuarially-determined present value calculations. The valuation of the projected benefit obligation and net periodic benefit cost for the Trustmark Corporation Pension Plan for certain Employees of Acquired Financial Institutions (the Continuing Plan) and Trustmark's nonqualified supplemental retirement plans requires Management to make estimates regarding the amount and timing of expected cash outflows. Several variables affect these calculations, including (i) size and characteristics of the participant population, (ii) discount rate, (iii) expected long-term rate of return on plan assets and (iv) recognition of actual returns on plan assets. Below is a brief

description of the variables that introduce material uncertainty into Management's estimates and the effect they have on estimated benefit cost.

- Population and Characteristics of Participants. Benefit cost is directly related to the number of participants covered by the plan and characteristics such as salary, age, years of service and benefit terms. At December 31, 2018, the census for Trustmark's plans totaled 122 participants.
- Discount Rate. The discount rate utilized in determining the present value of the future benefit obligation was 3.97% at December 31, 2018 (as compared to 3.32% at December 31, 2017). The discount rate is determined by matching the expected cash flows of the plan to a yield curve based on long term, high quality fixed income debt instruments available as of the measurement date (December 31, 2018). The discount rate is reset annually on the measurement date to reflect current economic conditions. If Trustmark assumes a 1.00% increase or decrease in the discount rate for Trustmark's plans and kept all other assumptions constant, the benefit cost associated with the Trustmark's plans would decrease or increase by approximately $368 thousand and $407 thousand, respectively.
- Expected Long-Term Rate of Return on Plan Assets. Based on historical experience and market projection of the target asset allocation set forth in the investment policy for the Continuing Plan, the pre-tax expected rate of return on the plan assets used in both 2018 and 2017 was 5.00%. This expected rate of return is dependent upon the asset allocation decisions made with respect to plan assets. Annual differences, if any, between expected and actual return are included in the unrecognized net actuarial gain or loss amount. Trustmark generally amortizes any cumulative unrecognized net actuarial gain or loss in excess of 10% of the greater of the projected benefit obligation or the fair value of plan assets. If Trustmark assumes a 1.00% increase or decrease in the expected long-term rate of return for the Continuing Plan, holding all other actuarial assumptions constant, the pension cost would decrease or increase by approximately $46 thousand.
- Other Actuarial Assumptions. To estimate the projected benefit obligation, actuarial assumptions are required to be made by Management, including mortality rate, retirement rate, disability rate and the rate of compensation increases.

Contingent Liabilities

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

Recent Legislative and Regulatory Developments

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

Non-GAAP Financial Measures

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

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

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

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

		Years Ended December 31,		
TANGIBLE EQUITY		2018	2017	2016
AVERAGE BALANCES				
Total shareholders' equity		$1,586,877	$1,560,884	$1,517,955
Less: Goodwill		(379,627)	(375,947)	(366,156)
Identifiable intangible assets		(13,751)	(18,885)	(24,132)
Total average tangible equity		$1,193,499	$1,166,052	$1,127,667
PERIOD END BALANCES				
Total shareholders' equity		$1,591,453	$1,571,701	$1,520,208
Less: Goodwill		(379,627)	(379,627)	(366,156)
Identifiable intangible assets		(11,112)	(16,360)	(20,680)
Total tangible equity	(a)	$1,200,714	$1,175,714	$1,133,372
TANGIBLE ASSETS				
Total assets		$13,286,460	$13,797,953	$13,352,333
Less: Goodwill		(379,627)	(379,627)	(366,156)
Identifiable intangible assets		(11,112)	(16,360)	(20,680)
Total tangible assets	(b)	$12,895,721	$13,401,966	$12,965,497
Risk-weighted assets	(c)	$10,803,313	$10,566,818	$9,952,123
NET INCOME ADJUSTED FOR INTANGIBLE AMORTIZATION				
Net income		$149,584	$105,630	$108,411
Plus: Intangible amortization net of tax		3,938	3,810	4,240
Net income adjusted for intangible amortization		$153,522	$109,440	$112,651
Period end common shares outstanding	(d)	65,834,395	67,746,094	67,628,618
TANGIBLE EQUITY MEASUREMENTS				
Return on average tangible equity (1)		12.86%	9.39%	9.99%
Tangible equity/tangible assets	(a)/(b)	9.31%	8.77%	8.74%
Tangible equity/risk-weighted assets	(a)/(c)	11.11%	11.13%	11.39%
Tangible book value	(a)/(d)*1,000	$18.24	$17.35	$16.76
COMMON EQUITY TIER 1 CAPITAL (CET1) - BASEL III				
Total shareholders' equity		$1,591,453	$1,571,701	$1,520,208
AOCI-related adjustments (2)		55,679	48,248	45,798
CET1 adjustments and deductions:				
Goodwill net of associated deferred tax liabilities (DTLs)		(365,779)	(366,461)	(347,442)
Other adjustments and deductions for CET1 (3)		(9,815)	(10,248)	(8,637)
CET1 capital	(e)	1,271,538	1,243,240	1,209,927

Additional tier 1 capital instruments plus related surplus		60,000	60,000	60,000
Less: Additional tier 1 capital deductions		—	(2)	(267)
Additional tier 1 capital		60,000	59,998	59,733
Tier 1 capital		$1,331,538	$1,303,238	$1,269,660
Common equity tier 1 risk-based capital ratio	(e)/(c)	11.77 %	11.77 %	12.16 %

(1) Calculated using net income adjusted for intangible amortization divided by total average tangible equity.

(2) The December 31, 2017 amount contains a reclassification adjustment of $8.5 million from AOCI to retained earnings as allowed by regulatory agencies in an interagency statement released on January 18, 2018 to address disproportionate tax effects in AOCI resulting from the enactment of the Tax Reform Act and the application of FASB ASC Topic 740, "Income Taxes."

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

Significant Non-routine Transactions

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

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

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

	Years Ended December 31,					
	2018		2017		2016	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Net Income (GAAP)	$149,584	$ 2.211	$105,630	$ 1.556	$108,411	$ 1.599
Significant non-routine transactions:						
Re-measurement of net deferred taxes	—	—	25,619	0.377	—	—
Elimination of deferred tax valuation allowance	—	—	(8,650)	(0.127)	—	—
Defined benefit plan termination, net of tax	—	—	10,895	0.160	—	—
Reliance merger transaction expenses, net of tax	—	—	1,999	0.029	—	—
Non-taxable gain on acquired life insurance proceeds	—	—	(4,894)	(0.072)	—	—
Early retirement program expense, net of tax	—	—	—	—	6,049	0.089
Pension expense due to de-risking strategy in Plan assets portfolio, net of tax	—	—	—	—	820	0.012
Net Income adjusted for significant non-routine transactions (Non-GAAP)	$149,584	$ 2.211	$130,599	$ 1.923	$115,280	$ 1.700
	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)	Reported (GAAP)	Adjusted (Non-GAAP)
Return on average equity	9.43 %	n/a	6.77 %	8.37 %	7.14 %	7.59 %
Return on average tangible equity	12.86 %	n/a	9.39 %	11.53 %	9.99 %	10.60 %

Return on average assets	1.11	%	n/a	0.77	%	0.95	%	0.84	%	0.89	%

Re-measurement of Net Deferred Taxes

During the fourth quarter of 2017, Trustmark re-measured its net deferred tax assets subsequent to the enactment of the Tax Reform Act which resulted in the reduction of the corporate federal income tax rate. In accordance with FASB ASC Topic 740, Trustmark recorded a one-time increase in deferred income tax expense of $25.6 million for the year ended December 31, 2017.

Elimination of Deferred Tax Valuation Allowance

During 2013, a deferred tax valuation allowance was created as a result of Trustmark's merger with BancTrust Financial Group, Inc. (BancTrust) and was established to reduce deferred tax assets to the amount that was more likely than not to be realized in future years. Trustmark has continually evaluated this allowance since inception and, based on the weight of the available evidence, has determined that the deferred tax assets will not be subject to the limitations of Internal Revenue Code, Section 382 on the deductibility of built-in losses in future years. During the fourth quarter of 2017, Trustmark eliminated the valuation allowance and recorded a one-time decrease in deferred income tax expense of $8.7 million.

Defined Benefit Pension Plan Termination Expense

As previously reported, on July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Trustmark Capital Accumulation Plan (the Plan), a noncontributory tax-qualified defined benefit pension plan, effective as of December 31, 2016. The final distributions were made from current plan assets and a one-time pension settlement expense of $17.6 million, before taxes, which is included in noninterest expense for the year ended December 31, 2017.

Reliance Merger Transaction Expenses

On April 7, 2017, Trustmark completed its previously announced merger with Reliance. 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 non-routine merger transaction expenses in other expense totaling $3.2 million, before tax.

Non-taxable Gain on Acquired Life Insurance Proceeds

During the second quarter of 2017, Trustmark received non-routine, non-taxable proceeds related to life insurance acquired in a previous acquisition. Included in other income, net for the year ended December 31, 2017 were non-routine, non-taxable proceeds of $4.9 million.

Early Retirement Program Expense

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

Pension Expense Due to De-risking Strategy in Plan Assets Portfolio

On July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan effective December 31, 2016. As a result of Trustmark's de-risking investment strategy for the Plan as of June 30, 2016, the expected rate of return on plan assets during the second half of 2016 decreased from 6.0% to 2.5%, which resulted in increased periodic benefit costs for the Plan. Included in other expense for the year ended December 31, 2016, were non-routine pension expenses related to the de-risking investment strategy for the plan assets totaling $1.3 million, before tax.

Results of Operations

Net Interest Income

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

Net interest income-FTE for 2018 increased $4.9 million, or 1.1%, when compared with 2017. The net interest margin increased 6 basis points to 3.54% for 2018 when compared to 2017. The increase in the net interest margin was principally due to growth in the yield on the LHFI and LHFS portfolios, run-off of maturing investment securities and a favorable funding mix, partially offset by higher costs of interest-bearing deposits and a decrease in the fully tax equivalent adjustment as a result of the lower corporate tax rate due to the enactment of the Tax Reform Act. The net interest margin excluding acquired loans, which equals the reported net interest income-FTE excluding interest and

fees on acquired loans, as a percentage of average earning assets excluding average acquired loans, for 2018 was 3.46%, an increase of 10 basis point when compared to 2017, due to the factors discussed above.

Average interest-earning assets for 2018 totaled $12.194 billion compared to $12.274 billion for 2017 a decrease of $79.6 million, or 0.6%. The decline in average earning assets during 2018 was primarily due to decreases in average total securities of $474.8 million, or 13.6%, and average acquired loans of $105.1 million, or 36.9%, partially offset by increases in average loans (LHFS and LHFI) of $384.8 million, or 4.6%, and average other earning assets of $117.0 million. The increase in average loans (LHFS and LHFI) was primarily attributable to the $265.9 million, or 3.1%, increase in the LHFI portfolio when balances at December 31, 2018 are compared to balances at December 31, 2017. This increase primarily represented net growth in loans secured by real estate in Trustmark's Alabama, Mississippi and Florida market regions. The increase in average other earning assets during 2018 was primarily due to growth in interest-bearing deposits due from depository institutions. The decrease in average total securities was primarily due to calls, maturities and pay-downs of the underlying loans of government-sponsored enterprise (GSE) guaranteed

securities as well as declines in the fair market value of the securities available for sale. The decline in average acquired loans during 2018 was primarily attributable to pay-downs and pay-offs of the acquired loans as well as acquired loans that were transferred to LHFI.

During 2018, interest and fees on LHFS and LHFI-FTE increased $45.4 million, or 12.5%, when compared to 2017, due to growth in LHFI, while the yield on loans (LHFS and LHFI) increased 33 basis points to 4.64% as a result of increases in interest rates. During 2018, interest on total securities-FTE decreased $11.9 million, or 14.7%, compared to 2017, primarily due to the run-off of maturing investment securities. The yield on total securities for 2018 declined 3 basis points to 2.28%, compared to 2017. Interest and fees on acquired loans declined $7.4 million, or 30.1%, when 2018 is compared to 2017, while the yield on acquired loans increased 93 basis points to 9.52%, primarily due to declines in accretion income, principally related to the loans acquired in the BancTrust merger, as well as decreases in loan recovery from settlement of debt, deferred fee amortization and other interest and fees related to loans acquired in the Reliance merger, partially offset by an increase in loan recovery from settlement of debt related to loans acquired in the BancTrust merger. Other interest income for 2018 increased $2.7 million, while the yield on other earning assets increased 31 basis points to 2.13%, when compared to 2017, principally due to the increase in interest-bearing deposits due from depository institutions as well as increases in interest rates. As a result of these factors, interest income-FTE increased $28.8 million, or 6.1%, when 2018 is compared to 2017, while the yield on total earning assets increased 26 basis points to 4.09%.

Average interest-bearing liabilities for 2018 totaled $8.797 billion compared to $8.963 billion for 2017, a decrease of $165.7 million, or 1.8%. The decrease in average interest-bearing liabilities was principally due to declines in average short-term borrowings and average federal funds purchased and securities sold under repurchase agreements which were largely offset by an increase in interest-bearing deposits. Average short-term borrowings for 2018 decreased $821.6 million, or 72.2%, when compared to 2017, primarily reflecting a $900.0 million decrease in the balance of outstanding short-term FHLB advances obtained from the FHLB of Dallas. Average federal funds purchased and securities sold under repurchase agreements for 2018 declined $182.4 million, or 35.6%, when compared to 2017, primarily due to a decrease in upstream federal funds purchased as a result of changes in funding and liquidity needs. Average interest-bearing deposits for 2018 increased $934.9 million, or 13.1%, when compared to 2017 as a result of growth in all categories of average interest-bearing deposits primarily due to the increase in interest rates in general.

Total interest expense for 2018 increased $23.9 million, or 56.7%, when compared with 2017, principally due to an increase in interest on deposits, in conjunction with rising interest rates in general, partially offset by a decline in other interest expense. Interest on deposits for 2018 increased $31.2 million while the rate on interest-bearing deposits increased 35 basis points to 0.67% when compared to 2017, principally due to increases in average balances of all categories of interest-bearing deposits and rising interest rates in general. Other interest expense decreased $7.9 million, or 51.4%, when 2018 is compared to 2017, primarily due to the $900.0 million decline in the balance of outstanding short-term FHLB advances with the FHLB of Dallas, while the rate on other borrowings increased 79 basis points to 1.97% reflecting an increase in rates. As a result of these factors, the overall rate on interest-bearing liabilities increased 28 basis points to 0.75% when 2018 is compared with 2017.

Net interest income-FTE for 2017 increased $21.5 million, or 5.3%, when compared with 2016. The net interest margin decreased 5 basis points to 3.48% for 2017 when compared to 2016. The decrease in the net interest margin was primarily the result of increases in the cost of interest-bearing liabilities in conjunction with rising rates in general, partially offset by an increase in the yield on LHFS and LHFI. The net interest margin excluding acquired loans, which equals the reported net interest income-FTE excluding interest and fees on acquired loans, as a percentage of average earning assets excluding average acquired loans, for 2017 was 3.36%, a decrease of 1 basis point when compared to 2016, due to the factors discussed above.

Average interest-earning assets for 2017 were $12.274 billion compared to $11.485 billion for 2016 an increase of $789.1 million, or 6.9%. The growth in average earning assets during 2017 was primarily due to an increase in

average loans (LHFS and LHFI) of $820.5 million, or 10.8%, partially offset by a decrease in average acquired loans of $46.8 million, or 14.1%. The increase in average loans (LHFS and LHFI) was primarily attributable to the $718.8 million, or 9.2%, increase in the LHFI portfolio when balances at December 31, 2017 are compared to balances at December 31, 2016. This increase represented net growth across all of Trustmark's market regions and all categories in its LHFI portfolio. The decline in average acquired loans during 2017 was primarily attributable to anticipated pay-offs of acquired loans, principally related to the BancTrust merger, as well as the reclassification of $36.7 million of acquired loans not accounted for under FASB ASC Topic 310-30 to LHFI due to the discount on these loans being fully amortized, partially offset by the loans acquired in the Reliance merger.

During 2017, interest and fees on LHFS and LHFI-FTE increased $46.8 million, or 14.8%, when compared to 2016, due to growth in LHFI, while the yield on loans (LHFS and LHFI) increased 15 basis points to 4.31% as a result of increases in interest rates. During 2017, interest and fees on acquired loans decreased $5.7 million, or 18.8%, compared to 2016, due to declines in recoveries on settlement of debt and accretion income, primarily related to loans acquired in the BancTrust merger, as acquired loans continue to pay-down as anticipated, partially offset by interest and fees on loans acquired in the Reliance merger. As a result, the yield on acquired loans decreased 50 basis points to 8.59% when 2017 is compared to 2016. During 2017, interest on securities decreased $2.5 million, or 3.0%, and the yield on securities declined 8 basis points to 2.31%, compared to 2016, principally due to calls, maturities

and pay-downs of the underlying loans of higher yielding securities being replaced with lower yielding securities as well as a decline in the yield maintenance payments on prepaid mortgage-backed securities. As a result of these factors, interest income-FTE increased $39.2 million, or 9.1%, when 2017 is compared to 2016, while the yield on total earning assets increased 8 basis points to 3.83%.

Average interest-bearing liabilities for 2017 totaled $8.963 billion compared to $8.281 billion for 2016, an increase of $682.1 million, or 8.2%. The increase in average interest-bearing liabilities was principally due to increases in average short-term borrowings and interest-bearing deposits, partially offset by a decline in average long-term FHLB advances. Average short-term borrowings for 2017 increased $768.3 million when compared to 2016, principally due to the increased balance in outstanding short-term FHLB advances with the FHLB of Dallas. Average interest-bearing deposits for 2017 increased $481.3 million, or 7.2%, when compared to 2016 principally due to growth in all categories of interest-bearing deposits as well as the deposits acquired in the Reliance merger. Average long-term FHLB advances decreased $536.7 million, or 84.6%, during 2017, primarily due to the $500.0 million long-term FHLB advance obtained from the FHLB of Dallas that was reclassified to short-term during December 2016 and the $250.0 million long-term FHLB advance obtained from the FHLB of Dallas during May 2016 that was reclassified to short-term in May 2017.

Total interest expense for 2017 increased $17.7 million, or 72.1%, when compared with 2016, principally due to rising interest rates in general. Interest expense on deposits for 2017 increased $10.0 million, or 78.2%, when compared to 2016, principally due to rising rates in general, accompanied by increases in average balances of all categories of interest-bearing deposits. The rate on interest-bearing deposits increased 13 basis points to 0.32% for 2017 compared to 0.19% for 2016. Interest on federal funds purchased and securities sold under repurchase agreements increased $2.4 million while the rate increased 46 basis points to 0.81% when 2017 is compared to 2016 principally due to increases in the target range for the federal funds rate by the FRB. Other interest expense increased $5.3 million, or 52.5%, while the rate on other borrowings increased 27 basis points to 1.18% when the year ended December 31, 2017 is compared to the year ended December 31, 2016, principally due to increases in rates in general, accompanied by increases in average balances of short-term FHLB advances partially offset by the decline in interest expense on the subordinated notes which matured in December 2016. As a result of these factors, the overall rate on interest-bearing liabilities increased 17 basis points to 0.47% when 2017 is compared with 2016.

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

	Years Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Interest-earning assets:									
Federal funds sold and securities purchased under reverse repurchase agreements	$716	$14	1.96%	$2,229	$33	1.48%	$1,105	$14	1.27%
Securities available for sale:									
Taxable	1,990,332	45,380	2.28%	2,296,070	52,806	2.30%	2,236,663	53,005	2.37%
Nontaxable	47,112	1,636	3.47%	73,373	3,042	4.15%	97,942	3,982	4.07%
Securities held to maturity:									
Taxable	950,836	20,702	2.18%	1,091,108	23,386	2.14%	1,120,267	24,609	2.20%
Nontaxable	30,336	1,194	3.94%	32,874	1,575	4.79%	34,616	1,672	4.83%
Loans (LHFS and LHFI)	8,797,498	408,175	4.64%	8,412,673	362,795	4.31%	7,592,223	316,007	4.16%
Acquired loans	179,808	17,115	9.52%	284,898	24,478	8.59%	331,736	30,144	9.09%
Other earning assets	197,431	4,196	2.13%	80,468	1,466	1.82%	70,029	988	1.41%
Total interest-earning assets	12,194,069	498,412	4.09%	12,273,693	469,581	3.83%	11,484,581	430,421	3.75%
Cash and due from banks	331,574			311,642			291,868		
Other assets	1,032,846			1,215,019			1,243,985		
Allowance for loan losses	(85,252)			(84,708)			(82,414)		
Total Assets	$13,473,237			$13,715,646			$12,938,020		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$2,543,463	18,479	0.73%	$2,114,475	6,820	0.32%	$1,866,225	3,297	0.18%
Savings deposits	3,720,987	17,980	0.48%	3,308,027	6,047	0.18%	3,140,060	2,657	0.08%
Time deposits	1,823,562	17,477	0.96%	1,730,569	9,850	0.57%	1,665,516	6,794	0.41%

Federal funds purchased and securities sold under repurchase agreements	329,649	4,788	1.45 %	512,085	4,152	0.81 %	495,197	1,717	0.35 %
Short-term borrowings	316,775	5,010	1.58 %	1,138,353	12,981	1.14 %	370,008	3,695	1.00 %
Long-term FHLB advances	912	6	0.66 %	97,561	566	0.58 %	634,300	2,104	0.33 %
Subordinated notes	—	—	—	—	—	—	47,662	2,775	5.82 %
Junior subordinated debt securities	61,856	2,452	3.96 %	61,856	1,829	2.96 %	61,856	1,508	2.44 %
Total interest-bearing liabilities	8,797,204	66,192	0.75 %	8,962,926	42,245	0.47 %	8,280,824	24,547	0.30 %
Noninterest-bearing demand deposits	2,892,033			3,028,982			2,996,886		
Other liabilities	197,123			162,854			142,355		
Shareholders' equity	1,586,877			1,560,884			1,517,955		
Total Liabilities and Shareholders' Equity	$ 13,473,237			$ 13,715,646			$ 12,938,020		
Net Interest Margin		432,220	3.54 %		427,336	3.48 %		405,874	3.53 %
Less tax equivalent adjustments:									
Investments		594			1,616			1,979	
Loans		12,206			18,170			16,362	
Net Interest Margin per Income Statements		$ 419,420			$ 407,550			$ 387,533	

42

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

	2018 Compared to 2017 Increase (Decrease) Due To:			2017 Compared to 2016 Increase (Decrease) Due To:		
	Volume	Yield/ Rate	Net	Volume	Yield/ Rate	Net
Interest earned on:						
Federal funds sold and securities purchased under reverse repurchase agreements	$(27)	$8	$(19)	$17	$2	$19
Securities available for sale:						
Taxable	(6,971)	(455)	(7,426)	1,389	(1,588)	(199)
Nontaxable	(964)	(442)	(1,406)	(1,017)	77	(940)
Securities held to maturity:						
Taxable	(3,105)	421	(2,684)	(597)	(626)	(1,223)
Nontaxable	(116)	(265)	(381)	(83)	(14)	(97)
Loans, net of unearned income (LHFS and LHFI)	16,972	28,408	45,380	35,083	11,705	46,788
Acquired loans	(9,789)	2,426	(7,363)	(4,077)	(1,589)	(5,666)
Other earning assets	2,444	286	2,730	162	316	478
Total interest-earning assets	(1,556)	30,387	28,831	30,877	8,283	39,160
Interest paid on:						
Interest-bearing demand deposits	1,594	10,065	11,659	515	3,008	3,523
Savings deposits	831	11,102	11,933	139	3,251	3,390
Time deposits	555	7,072	7,627	278	2,778	3,056
Federal funds purchased and securities sold under repurchase agreements	(1,839)	2,475	636	61	2,374	2,435
Short-term borrowings	(11,721)	3,750	(7,971)	8,699	587	9,286
Long-term FHLB advances	(560)	—	(560)	(1,538)	—	(1,538)
Subordinated notes	—	—	—	(1,388)	(1,387)	(2,775)
Junior subordinated debt securities	—	623	623	—	321	321
Total interest-bearing liabilities	(11,140)	35,087	23,947	6,766	10,932	17,698
Change in net interest income on a tax equivalent basis	$9,584	$(4,700)	$4,884	$24,111	$(2,649)	$21,462

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

Provision for Loan Losses, LHFI

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

recoveries and growth in the LHFI portfolio among other factors. Accordingly, the amount of the provision reflects the necessary increases or decreases in the allowance for loan losses, LHFI related to adjustments for specific loans or loan pools as a result of growth in the portfolio and evaluation of current impairment analyses, actions taken with respect to risk ratings on loans and other adjustments resulting from changes in qualitative factors. The provision for loan losses, LHFI totaled $18.0 million for 2018, $15.1 million for 2017 and $11.0 million for 2016. The increase in the provision for loan losses, LHFI when 2018 is compared to 2017 was primarily due to increases in the amount of provision expense related to new and existing impaired LHFI and net charge-offs, partially offset by declines in provision expense related to changes in loan growth and qualitative reserve factors as well as specific reserves recorded during 2017 related to Hurricane Harvey. The increase in the provision for loan losses, LHFI for 2017 when compared to 2016 was primarily due to an increase in the amount of provision required related to existing and newly impaired LHFI, and the $1.1 million of additional reserves due to the potential loss exposure caused by Hurricane Harvey. See the section captioned “Allowance for Loan Losses, LHFI” for further analysis of the provision for loan losses, LHFI.

Provision for Loan Losses, Acquired Loans

The provision for loan losses, acquired loans is recognized subsequent to acquisition to the extent it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when actual losses of unpaid principal incurred exceed previous loss expectations to date, or future cash flows previously expected to be collectible are no longer probable of collection. The provision for loan losses, acquired loans is reflected as a valuation allowance netted against the carrying value of the acquired loans. The decrease in the negative provision for loan losses, acquired loans when 2018 is compared to 2017 was principally due to changes in expectations based on the periodic re-estimations performed during the respective periods and acquired impaired loans that were transferred to LHFI during 2018. The decrease in the provision for loan losses, acquired loans when 2017 is compared to 2016 was principally due to changes in expectations based on the periodic re-estimations performed during the respective periods and a decline in acquired loan balances.

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

	Years Ended December 31,		
	2018	2017	2016
BancTrust	$(1,415)	$(6,089)	$4,143
Bay Bank	377	(1,323)	(50)
Heritage	60	(122)	(336)
Reliance	(27)	139	—
Total provision for loan losses, acquired loans	$(1,005)	$(7,395)	$3,757

Noninterest Income

Noninterest income represented 30.6%, 31.2% and 31.0% of total revenue, before securities gains (losses), net in 2018, 2017 and 2016, respectively. The following table provides the comparative components of noninterest income for the periods presented ($ in thousands):

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% Change	Amount	% Change	Amount	% Change
Service charges on deposit accounts	$43,702	-0.7 %	$44,003	-2.8 %	$45,253	-4.5 %
Bank card and other fees	28,905	2.2 %	28,286	1.4 %	27,906	-1.4 %
Mortgage banking, net	34,674	16.0 %	29,902	6.0 %	28,212	-6.5 %
Insurance commissions	40,481	6.1 %	38,168	3.8 %	36,764	0.9 %
Wealth management	30,338	—	30,340	-0.5 %	30,492	-2.8 %
Other, net	6,736	-51.7 %	13,949	n/m	5,626	n/m
Total Noninterest Income before securities gains (losses), net	184,836	0.1 %	184,648	6.0 %	174,253	0.6 %
Securities gains (losses), net	—	-100.0 %	15	n/m	(310)	n/m
Total Noninterest Income	$184,836	0.1 %	$184,663	6.2 %	$173,943	0.5 %

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

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

Service Charges on Deposit Accounts

Service charges on deposit accounts remained fairly stable when 2018 is compared to 2017, with the slight decline resulting primarily from a decline in non-sufficient fund (NSF) and overdraft fees on consumer deposit accounts.

The decline in service charges on deposit accounts when 2017 is compared to 2016 was principally due to decline in service charges of $734 thousand, or 4.8%, primarily related to commercial and consumer demand deposit accounts and a decline in NSF and overdraft fees of $516 thousand, or 1.7%, primarily related to commercial demand deposit accounts and consumer interest checking accounts.

Mortgage Banking, Net

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

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% Change	Amount	% Change	Amount	% Change
Mortgage servicing income, net	$22,248	2.7 %	$21,663	4.5 %	$20,724	5.6 %
Change in fair value-MSR from runoff	(11,774)	9.2 %	(10,780)	6.7 %	(10,106)	6.1 %
Gain on sales of loans, net	21,616	14.2 %	18,934	-7.8 %	20,535	14.3 %
Other, net	184	n/m	(169)	n/m	(84)	n/m
Mortgage banking income before hedge ineffectiveness	32,274	8.9 %	29,648	-4.6 %	31,069	9.8 %
Change in fair value-MSR from market changes	7,342	n/m	(1,050)	n/m	(406)	n/m
Change in fair value of derivatives	(4,942)	n/m	1,304	n/m	(2,451)	n/m
Net hedge ineffectiveness	2,400	n/m	254	n/m	(2,857)	n/m
Mortgage banking, net	$34,674	16.0 %	$29,902	6.0 %	$28,212	-6.5 %

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

The increase in mortgage banking, net for 2018 when compared to 2017 was principally due to increases in the gain on sales of loans, net and net positive hedge ineffectiveness. The increase in mortgage banking, net for 2017 when compared to 2016 was principally due to a net positive hedge ineffectiveness for 2017 compared to a net negative hedge ineffectiveness for 2016 and an increase in mortgage servicing income, net, partially offset by a decline in gain on sales of loans, net. Mortgage loan production increased $45.8 million, or 3.4%, during 2018 to total $1.401 billion. Mortgage loan production decreased $250.8 million, or 15.6%, during 2017 to total $1.355 billion, reflecting the rising interest rate environment. Loans serviced for others totaled $6.835 billion at December 31, 2018, compared with $6.624 billion at December 31, 2017, and $6.371 billion at December 31, 2016.

Representing a significant component of mortgage banking income is gain on sales of loans, net. The increase in the gain on sales of loans, net when 2018 is compared to 2017 resulted primarily from higher profit margins in secondary marketing activities. The decrease in the gain on sales of loans, net when 2017 is compared to 2016 resulted primarily from a decline in the volume of loans sold partially offset by higher profit margins from secondary marketing activities. Loan sales decreased $86.5 million, or 7.3%, during 2018 to total $1.092 billion compared to a decrease of $205.4 million, or 14.8%, during 2017 to total $1.179 billion. The decreases in loan sales during 2018 and 2017 were principally due to the decline in mortgage lending activity as a result of rising interest rates.

Other Income, Net

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

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% Change	Amount	% Change	Amount	% Change
Partnership amortization for tax credit purposes	$(8,707)	-8.9 %	$(9,560)	-3.6 %	$(9,916)	-1.3 %

Increase in life insurance cash surrender value	7,121	-0.1	%	7,125	3.4	%	6,891	2.8	%
Other miscellaneous income	8,322	-49.2	%	16,384	89.4	%	8,651	n/m	
Total other, net	$6,736	-51.7	%	$13,949	n/m		$5,626	n/m	

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

The decrease in other income, net when 2018 is compared to 2017 was primarily due to a decrease in other miscellaneous income principally due to the non-taxable proceeds related to Trustmark's bank-owned life insurance and the non-routine, non-taxable proceeds related to life insurance acquired as part of a previous acquisition received during 2017. Excluding all non-taxable life insurance proceeds, other miscellaneous income for 2018 decreased $587 thousand, or 23.9%, when compared to 2017, primarily due to a decrease in gains (losses), net on sales of premises and equipment. The increase in other income, net when 2017 is compared to 2016 was primarily due to an increase in other miscellaneous income as a result of $4.4 million of non-taxable bank-owned life insurance proceeds and the $4.9 million of non-routine, non-taxable proceeds related to life insurance acquired as part of a previous acquisition received during 2017. Excluding the non-taxable life insurance proceeds, other miscellaneous income for 2017 decreased $734 thousand, or 23.0%, when compared to 2016.

Noninterest Expense

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

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% Change	Amount	% Change	Amount	% Change
Salaries and employee benefits	$238,033	3.8 %	$229,265	—	$229,250	-0.4 %
Defined benefit plan termination	—	—	17,644	n/m	—	—
Services and fees	66,382	9.0 %	60,893	3.7 %	58,695	2.0 %
Net occupancy-premises	26,703	3.6 %	25,767	3.1 %	24,982	-1.3 %
Equipment expense	24,830	1.5 %	24,453	0.9 %	24,225	1.5 %
Other real estate expense:						
Write-downs	873	-73.5 %	3,296	-26.1 %	4,463	7.0 %
Net (gain)/loss on sale	(700)	-66.5 %	(2,091)	-70.3 %	(7,030)	74.0 %
Carrying costs	1,829	-25.9 %	2,467	-21.8 %	3,153	-33.9 %
Total other real estate expense	2,002	-45.5 %	3,672	n/m	586	-88.0 %
FDIC assessment expense	9,429	-14.4 %	11,010	-2.1 %	11,243	4.8 %
Other expense	48,036	-16.4 %	57,465	-1.5 %	58,317	18.7 %
Total noninterest expense	$415,415	-3.4 %	$430,169	5.6 %	$407,298	1.4 %

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

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

Salaries and Employee Benefits

The increase in salaries and employee benefits, the largest component of noninterest expense, when 2018 is compared to 2017 was primarily due to increases in salaries and incentive compensation as a result of general merit increases and higher commission expense as a result of improvements in the insurance and mortgage origination lines of business. Trustmark adopted FASB Accounting Standard Update (ASU) 2017-07, “Compensation-Retirement Benefits (Topic 715)-Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” effective January 1, 2018. As a result of adopting ASU 2017-07, Trustmark was required to reclassify $5.7 million and $10.4 million of net periodic benefit cost, excluding the service cost component, from salaries and employee benefits to other expense for the years ended December 31, 2017 and 2016, respectively. The decrease in salaries and employee benefits when 2017 is compared to 2016 was primarily due to the non-routine transaction expenses recorded in 2016 partially offset by increases in salaries and incentive compensation as a result of general merit increases and the addition of the employees from Reliance.

Services and Fees

The increase in services and fees expense when 2018 is compared to 2017 was primarily due to increases in data processing software expense, principally due to investments in new data processing software designed to improve efficiency and customer experience, and outside services and fees. The increase in services and fees expense when 2017 is compared to 2016 was primarily to due to increases in data processing expenses related to software, partially

offset by declines in other outside services and fees.

Other Real Estate Expense

The decrease in other real estate expense for 2018 compared to 2017 was principally due to a decline in write-downs of other real estate partially offset by a decrease in net gains on sales of other real estate. The increase in other real estate expense for 2017 compared to 2016 was principally due to a decline in the net gain on sales of other real estate partially offset by a decline in write-downs on other real estate. For additional analysis of other real estate and foreclosure expenses, please see the section captioned "Nonperforming Assets, Excluding Acquired Loans and Covered Other Real Estate."

Other Expense

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

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% Change	Amount	% Change	Amount	% Change
Loan expense	$11,086	1.6 %	$10,908	-10.8 %	$12,226	-4.7 %
Amortization of intangibles	5,248	-14.9 %	6,169	-10.2 %	6,866	-12.2 %
Defined benefit plans non-service cost reclass from salaries and employee benefits	3,540	-38.1 %	5,722	-44.9 %	10,387	100.0 %
Other miscellaneous expense	28,162	-18.8 %	34,666	20.2 %	28,838	1.3 %
Total other expense	$48,036	-16.4 %	$57,465	-1.5 %	$58,317	18.7 %

The decrease in other expense for 2018 when compared to 2017 was principally due to the $3.2 million of non-routine transaction expenses related to the completion of the Reliance merger incurred during 2017, a decrease in interchange related expenses for debit card transactions which were reported in bank card and other fees beginning January 1, 2018 as a result of adopting FASB ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” as well as declines in various other miscellaneous expenses and a decrease in defined benefit plan expense principally due to the termination of the Plan. The decrease in other expense for 2017 when compared to 2016 was principally due to declines in defined benefit plan expense, primarily due to the termination of the Plan, and loan expense, which were largely offset by the $3.2 million of non-routine transaction expenses related to the Reliance merger completed on April 7, 2017 as well as increases in various other miscellaneous expenses.

Results of Segment Operations

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

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

	Years Ended December 31,		
	2018	2017	2016
General Banking	$139,514	$97,706	$99,083
Wealth Management	2,698	2,244	4,124
Insurance	7,372	5,680	5,204
Consolidated Net Income	$149,584	$105,630	$108,411

General Banking

Net interest income for the General Banking Segment for 2018 increased $12.6 million, or 3.1%, when compared with 2017. The increase in net interest income was principally due to an increases in interest and fees on LHFS and LHFI and other interest income and a decrease in other interest expense, partially offset by an increase in interest on deposits and declines in interest on securities and interest and fees on acquired loans. Net interest income for the General

Banking Segment for 2017 increased $19.8 million, or 5.1%, when compared with 2016. The increase in net interest income was principally due to an increase in interest and fees on LHFS and LHFI, which were partially offset by declines in interest and fees on acquired loans and interest on securities and an increase in total interest expense. The provision for loan losses, net during 2018 totaled $17.0 million compared with $7.7 million during 2017 and $14.7 million during 2016. For more information on these net interest income items, please see the sections captioned “Financial Highlights” and “Results of Operations.”

Noninterest income for the General Banking Segment decreased $2.1 million, or 1.8%, during 2018 compared to an increase of $9.1 million, or 8.5%, during 2017. The decrease in noninterest income for the General Banking Segment during 2018 was primarily due to the non-taxable life insurance proceeds received during 2017 partially offset by an increase in mortgage banking, net. During 2017, Trustmark received $4.9 million in non-taxable proceeds related to life insurance acquired in a previous acquisition and $4.4 million of non-taxable proceeds related to bank-owned life insurance. Excluding these non-taxable proceeds, noninterest income for the General Banking Segment was relatively unchanged when 2017 is compared to 2016. Noninterest income for the General Banking Segment represented 21.4% of total revenue for 2018, 22.2% for 2017 and 21.7% for 2016. Noninterest income for the General Banking Segment includes service charges on deposit accounts; bank card and other fees; mortgage banking, net; other income, net and securities gains (losses), net. For more information on these noninterest income items, please see the analysis included in the section captioned “Noninterest Income.”

Noninterest expense for the General Banking Segment decreased $15.5 million, or 4.2%, during 2018 compared to an increase of $18.7 million, or 5.3%, during 2017. The decrease in noninterest expense for 2018 was principally due to non-routine transaction expenses related to the termination of the defined benefit pension plan and the Reliance merger incurred during 2017, partially offset by increases in salaries and employee benefits, primarily as a result of general merit increases and higher mortgage origination commission expense, and services and fees, primarily related to data processing software expense. The increase in noninterest expense for 2017 was principally due to non-routine transaction expenses related to the termination of the defined benefit pension plan and the Reliance merger. For more information on these noninterest expense items, please see the analysis included in the section captioned "Noninterest Expense."

Wealth Management

During 2018, net income for the Wealth Management Segment increased $454 thousand, or 20.2%, compared to a decrease of $1.9 million, or 45.6%, during 2017. Net interest income for the Wealth Management Segment, which primarily consists of interest income earned on deposit accounts held by the Wealth Management Segment, decreased $684 thousand, or 75.2%, during 2018 compared to an increase of $184 thousand, or 25.3%, during 2017. Noninterest income for the Wealth Management Segment, which includes income related to investment management, trust and brokerage services, was relatively unchanged during 2018 as declines in trust management fees were offset by increases in fees from investment services. Noninterest income for the Wealth Management Segment increased $168 thousand, or 0.6%, during 2017. The slight increase in noninterest income for the Wealth Management Segment during 2017 was primarily attributable to an increase in commissions generated by the brokerage services unit, which was largely offset by declines in trust management fees as well as a decline in annuity income generated by the brokerage services unit. Noninterest expense decreased $705 thousand, or 2.6%, during 2018 compared to an increase of $3.4 million, or 14.1%, during 2017. The decrease in noninterest expense for the Wealth Management Segment during 2018 was principally due to a decrease in other miscellaneous expense partially offset by increases in data processing expense related to software and salaries and employee benefits resulting from improvements in retail brokerage activity. The increase in noninterest expense for the Wealth Management Segment during 2017 was principally due to increases in outside services and fees, other miscellaneous expenses and allocated general overhead expense.

At December 31, 2018 and 2017, Trustmark held assets under management and administration of $10.592 billion and $10.640 billion and brokerage assets of $1.723 billion and $1.780 billion, respectively.

Insurance

Net income for the Insurance Segment during 2018 increased $1.7 million, or 29.8%, compared to an increase of $476 thousand, or 9.1%, during 2017. Noninterest income for the Insurance Segment, which predominately consists of insurance commissions, increased $2.3 million, or 6.0%, during 2018, compared to an increase of $1.4 million, or 3.9%, during 2017. The increase in noninterest income for the Insurance Segment during 2018 was primarily due to new insurance commission volume primarily in property and casualty coverage. The increase in noninterest income for the Insurance Segment during 2017 was primarily due to new business volume principally in property and casualty coverage as well as increases in other commission income.

Noninterest expense for the Insurance Segment increased $1.5 million, or 5.0%, during 2018 and $809 thousand, or 2.8%, during 2017. The increase in noninterest expense for the Insurance Segment during 2018 was primarily due to higher salaries expense resulting from modest general merit increases and higher commission expense due to improvements in business volumes. The increase in noninterest expense for the Insurance Segment during 2017 was primarily due to higher salaries and commission expense resulting from modest general merit increases and improved performance as well as an increase in travel and entertainment expenses.

Trustmark performed an annual impairment test of the book value of goodwill held in the Insurance Segment as of October 1, 2018, 2017, and 2016. Based on this analysis, Trustmark concluded that no impairment charge was required. A renewed period of falling prices and suppressed demand for the products of the Insurance Segment may result in impairment of goodwill in the future. FBBI's ability to maintain the current income trend is dependent on the success of the subsidiary's continued initiatives to attract new business through cross referrals between practice units and bank relationships and seeking new business in other markets.

Income Taxes

For the year ended December 31, 2018, Trustmark's combined effective tax rate was 13.0% compared to 31.6% in 2017 and 22.3% in 2016. During the fourth quarter of 2017, Trustmark incurred non-routine income tax expenses of $17.0 million related to the re-measurement of Trustmark's net deferred tax assets due to the enactment of the Tax Reform Act and the elimination of a deferred tax valuation allowance related to a prior merger. Excluding the effect of these non-routine income tax expenses, Trustmark's combined effective tax rate for 2017 was 20.6%. The decrease in the effective tax rate for 2018 compared to 2017, was primarily due to the lower statutory corporate tax rate as a result of the enactment of the Tax Reform Act. Trustmark's effective tax rate continues to be less than the statutory rate primarily due to various tax-exempt income items and its utilization of income tax credit programs.

Trustmark invests in partnerships that provide income tax credits on a Federal and/or State basis (i.e., NMTC, low income housing tax credits and historical tax credits). The income tax credits related to these partnerships are utilized as specifically allowed by income tax law and are recorded as a reduction in income tax expense. The Tax Reform Act did not impact the availability or accounting for these income tax credits in general; however, as a result of the lower combined effective tax rate, Trustmark is limited in its ability to invest in any new tax credits.

Financial Condition

Earning assets serve as the primary revenue streams for Trustmark and are comprised of securities, loans, federal funds sold, securities purchased under reverse repurchase agreements and other earning assets. Average earning assets totaled $12.194 billion, or 90.5% of total average assets, at December 31, 2018, compared with $12.274 billion, or 89.5% of total average assets, at December 31, 2017, a decrease of $79.6 million, or 0.6%.

Securities

The securities portfolio is utilized by Management to manage interest rate risk, generate interest income, provide liquidity and use as collateral for public and wholesale funding. Risk and return can be adjusted by altering duration, composition and/or balance of the portfolio. The weighted-average life of the portfolio at both December 31, 2018 and 2017 was 3.8 years.

When compared with December 31, 2017, total investment securities decreased by $573.7 million, or 17.4%, during 2018. This decrease resulted primarily from calls, maturities and pay-downs of the underlying loans of GSE guaranteed securities as well as a net decline in the fair market value of the securities available for sale, partially offset by purchases of available for sale securities. Trustmark sold no securities during 2018, compared to $27.7 million of securities sold during 2017, which generated a net gain of $15 thousand.

During 2013, Trustmark reclassified approximately $1.099 billion of securities available for sale as securities held to maturity to mitigate the potential adverse impact of a rising interest rate environment on the fair value of the available for sale securities and the related impact on tangible common equity. The resulting net unrealized holding loss is being 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. At December 31, 2018, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss (AOCL) in the accompanying consolidated balance sheets totaled $15.7 million ($11.8 million net of tax) compared to $19.5 million ($12.0 million net of tax) at December 31, 2017.

Available for sale securities are carried at their estimated fair value with unrealized gains or losses recognized, net of taxes, in AOCL, a separate component of shareholders' equity. At December 31, 2018, available for sale securities totaled $1.812 billion, which represented 66.6% of the securities portfolio, compared to $2.239 billion, or 67.9%, at December 31, 2017. At December 31, 2018, unrealized losses, net on available for sale securities totaled $42.7 million compared to unrealized losses, net of $23.5 million at December 31, 2017. At December 31, 2018, available for sale securities consisted of obligations of states and political subdivisions, GSE guaranteed mortgage-related securities and direct obligations of government agencies and GSEs.

Held to maturity securities are carried at amortized cost and represent those securities that Trustmark both intends and has the ability to hold to maturity. At December 31, 2018, held to maturity securities totaled $909.6 million and represented 33.4% of the total securities portfolio, compared with $1.056 billion, or 32.1%, at December 31, 2017.

The table below indicates the amortized cost of securities available for sale and held to maturity by type at December 31, 2018, 2017 and 2016 ($ in thousands):

	December 31,		
	2018	2017	2016
Securities available for sale			
U.S. Government agency obligations	$31,235	$45,763	$56,529
Obligations of states and political subdivisions	50,503	78,433	113,541
Mortgage-backed securities			
Residential mortgage pass-through securities			
Guaranteed by GNMA	69,648	66,634	43,222
Issued by FNMA and FHLMC	685,520	824,872	638,809
Other residential mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	830,129	1,028,176	1,271,198
Commercial mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	187,494	218,252	242,869
Total securities available for sale	$1,854,529	$2,262,130	$2,366,168
Securities held to maturity			
U.S. Government agency obligations	$3,736	$3,692	$3,647
Obligations of states and political subdivisions	35,783	46,039	46,303
Mortgage-backed securities			
Residential mortgage pass-through securities			
Guaranteed by GNMA	12,090	13,539	15,478
Issued by FNMA and FHLMC	115,133	133,975	81,299
Other residential mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	578,827	678,926	803,474
Commercial mortgage-backed securities			
Issued or guaranteed by FNMA, FHLMC or GNMA	164,074	180,315	208,442
Total securities held to maturity	$909,643	$1,056,486	$1,158,643

The following table details the maturities of securities available for sale and held to maturity using amortized cost at December 31, 2018, and the weighted-average yield for each range of maturities (tax equivalent basis) ($ in thousands):

	Maturing Within One Year	Yield	After One, But Within Five Years	Yield	After Five, But Within Ten Years	Yield	After Ten Years	Yield	Total
Securities available for sale									
U.S. Government agency obligations	$—	—	$5,181	4.59%	$3,056	3.89%	$22,998	3.58%	$31,235
Obligations of states and political subdivisions	24,449	3.20%	22,090	3.94%	—	—	3,964	4.52%	50,503
Mortgage-backed securities									
Residential mortgage pass-through securities									
Guaranteed by GNMA	9	10.12%	452	2.20%	5,771	2.13%	63,416	2.86%	69,648
Issued by FNMA and FHLMC	2	3.43%	—	—	344,484	2.13%	341,034	2.09%	685,520
Other residential mortgage-backed securities									
Issued or guaranteed by FNMA, FHLMC, or GNMA	—	—	4,104	2.35%	30,873	2.53%	795,152	2.43%	830,129
Commercial mortgage-backed securities									
Issued or guaranteed by FNMA,	42,838	2.24%	134,251	2.39%	2,731	4.12%	7,674	2.74%	187,494

FHLMC, or GNMA									
Total securities available for sale	$67,298	2.59 %	$166,078	2.66 %	$386,915	2.19 %	$1,234,238	2.39 %	$1,854,529
Securities held to maturity									
U.S. Government agency obligations	$—	—	$—	—	$3,736	2.52 %	$—	—	$3,736
Obligations of states and political subdivisions	170	7.11 %	35,073	4.31 %	540	5.45 %	—	—	35,783
Mortgage-backed securities									
Residential mortgage pass-through securities									
Guaranteed by GNMA	—	—	—	—	—	—	12,090	3.03 %	12,090
Issued by FNMA and FHLMC	—	—	—	—	22,391	1.95 %	92,742	2.42 %	115,133
Other residential mortgage-backed securities									
Issued or guaranteed by FNMA, FHLMC, or GNMA	—	—	—	—	—	—	578,827	2.18 %	578,827
Commercial mortgage-backed securities									
Issued or guaranteed by FNMA, FHLMC, or GNMA	—	—	130,791	2.18 %	—	—	33,283	2.42 %	164,074
Total securities held to maturity	$170	7.11 %	$165,864	2.63 %	$26,667	2.10 %	$716,942	2.24 %	$909,643

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

Management continues to focus on asset quality as one of the strategic goals of the securities portfolio, which is evidenced by the investment of approximately 97% of the portfolio in GSE-backed obligations and other Aaa-rated securities as determined by Moody's Investors Services (Moody's). None of the securities owned by Trustmark are collateralized by assets which are considered sub-prime. Furthermore, outside of stock ownership in the FHLB of Dallas, FHLB of Atlanta and Federal Reserve Bank of Atlanta, Trustmark does not hold any other equity investment in a GSE.

As of December 31, 2018, Trustmark did not hold securities of any one issuer with a carrying value exceeding ten percent of total shareholders' equity, other than certain GSEs which are exempt from inclusion. Management continues to closely monitor the credit quality as well as the ratings of the debt and mortgage-backed securities issued by the GSEs and held in Trustmark's securities portfolio.

The following table presents Trustmark's securities portfolio by amortized cost and estimated fair value and by credit rating, as determined by Moody's, at December 31, 2018 ($ in thousands):

	Amortized Cost		Estimated Fair Value	
	Amount	%	Amount	%
Securities Available for Sale				
Aaa	$1,804,026	97.3 %	$1,761,137	97.2 %
Aa1 to Aa3	34,731	1.9 %	34,837	1.9 %
A1 to A3	520	—	519	—
Baa1 to Baa3	200	—	200	—
Not Rated (1)	15,052	0.8 %	15,120	0.9 %
Total securities available for sale	$1,854,529	100.0%	$1,811,813	100.0%
Securities Held to Maturity				
Aaa	$873,860	96.1 %	$853,833	96.0 %
Aa1 to Aa3	26,828	2.9 %	26,886	3.0 %
Baa1 to Baa3	400	—	400	—
Not Rated (1)	8,555	1.0 %	8,614	1.0 %
Total securities held to maturity	$909,643	100.0%	$889,733	100.0%

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

The table above presenting the credit rating of Trustmark's securities is formatted to show the securities according to the credit rating category, and not by category of the underlying security. At December 31, 2018, approximately 97.2% of the available for sale securities, measured at the estimated fair value, and 96.1% of held to maturity securities, measured at amortized cost, were rated Aaa.

LHFS

At December 31, 2018, LHFS totaled $153.8 million, consisting of $92.2 million of residential real estate mortgage loans in the process of being sold to third parties and $61.6 million of Government National Mortgage Association (GNMA) optional repurchase loans. At December 31, 2017, LHFS totaled $180.5 million, consisting of $132.3 million of residential real estate mortgage loans in the process of being sold to third parties and $48.2 million of GNMA optional repurchase loans. Please refer to the nonperforming assets table that follows for information on GNMA loans eligible for repurchase which are past due 90 days or more.

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

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

LHFI

The table below provides the carrying value of the LHFI portfolio by loan type for each year of the five-year period ended
December 31, 2018 ($ in thousands):

December 31,				
2018	2017	2016	2015	2014

	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans secured by real estate:										
Construction, land development and other land	$1,056,601	12.0 %	$987,624	11.5 %	$831,437	10.6 %	$824,723	11.6 %	$619,877	9.6 %
Secured by 1-4 family residential properties	1,825,492	20.7 %	1,675,311	19.6 %	1,660,043	21.1 %	1,649,501	23.3 %	1,634,397	25.4 %
Secured by nonfarm, nonresidential properties	2,220,914	25.1 %	2,193,823	25.6 %	2,034,176	25.9 %	1,736,476	24.5 %	1,553,193	24.1 %
Other real estate secured	543,820	6.1 %	517,956	6.1 %	318,148	4.0 %	211,228	3.0 %	253,787	3.9 %
Commercial and industrial loans	1,538,715	17.4 %	1,570,345	18.3 %	1,528,434	19.5 %	1,343,211	18.9 %	1,270,350	19.7 %
Consumer loans	182,448	2.1 %	171,918	2.0 %	170,562	2.2 %	169,135	2.4 %	167,964	2.6 %
State and other political subdivision loans	973,818	11.0 %	952,483	11.1 %	917,515	11.7 %	734,615	10.4 %	602,727	9.3 %
Other loans	494,060	5.6 %	500,507	5.8 %	390,898	5.0 %	422,496	5.9 %	347,174	5.4 %
LHFI	$8,835,868	100.0%	$8,569,967	100.0%	$7,851,213	100.0%	$7,091,385	100.0%	$6,449,469	100.0%

LHFI increased $265.9 million, or 3.1%, compared to December 31, 2017. The increase in LHFI during 2018 was primarily due to net growth in LHFI secured by real estate in Trustmark's Alabama, Mississippi and Florida market regions.

During 2018, LHFI secured by real estate increased $272.1 million, or 5.1%, due to growth in the Alabama, Mississippi and Florida market regions, which was partially offset by declines in the Texas and Tennessee market regions. LHFI secured by 1-4 family residential properties increased $150.2 million, or 9.0%, during 2018 primarily due to growth in mortgage loans in the Mississippi, Alabama and Florida market regions. LHFI secured by construction, land development and other land increased $69.0 million, or 7.0%, during 2018, principally due to new loan growth in the other construction category, partially offset by other construction loans that were moved to other loan categories upon completion of the related construction project. During 2018, $500.7 million loans were moved from other construction to other loan categories, including $248.8 million in multi-family residential, $195.4 million in non-owner occupied and $56.5 million in owner occupied. Excluding all reclassifications between loan categories, growth in other construction loans across all five market regions totaled $501.1 million for 2018.

LHFI secured by nonfarm, nonresidential properties (NFNR LHFI) increased $27.1 million, or 1.2%, during 2018, principally due to movement from the other construction loans category. Excluding other construction loan reclassifications, the NFNR LHFI portfolio declined $223.3 million, or 10.2%, during 2018. The decrease in the NFNR LHFI portfolio, excluding the other construction reclassifications, was primarily attributable to declines in non-owner occupied loans in Trustmark's Texas, Mississippi and Florida market regions as well as declines in owner occupied loans in the Mississippi, Texas and Tennessee market regions, partially offset by growth in non-owner occupied loans in the Alabama and Tennessee market regions and owner occupied loans in the Florida and Alabama market regions. Other real estate secured LHFI increased $25.9 million, or 5.0%, during 2018, primarily due to multi-family residential loans in Trustmark's Texas, Alabama and Mississippi market regions that were moved from the other construction loan category. Excluding the other construction loan reclassifications, other real estate secured LHFI decreased $217.7 million, or 42.0%, during 2018.

The commercial and industrial loan portfolio decreased $31.6 million, or 2.0%, during 2018, due to declines in the Texas, Mississippi, Alabama, and Florida market regions, partially offset by growth in the Tennessee market region. Trustmark's exposure to the energy sector is primarily included in the commercial and industrial loan portfolio in Trustmark's Mississippi and Texas market regions. At December 31, 2018 and 2017, energy-related LHFI had outstanding balances of approximately $172.1 million and $226.5 million, respectively, which represented approximately 2.0% of Trustmark's total LHFI portfolio at December 31, 2018 compared to approximately 2.6% of the total LHFI portfolio at December 31, 2017. Trustmark has no loan exposure where the source of repayment, or the underlying security of such exposure, is tied to the realization of value from energy reserves. Should oil prices fall below current levels for a prolonged period of time, there is potential for downgrades to occur. Management will continue to monitor this exposure.

State and other political subdivision LHFI increased $21.3 million, or 2.2%, during 2018 due to growth in the Texas, Florida, Alabama and Tennessee market regions, partially offset by declines in the Mississippi market region.

The following table provides information regarding Trustmark's home equity loans and home equity lines of credit which are included in the LHFI secured by 1-4 family residential properties as of December 31, 2018 and 2017 ($ in thousands):

	December 31,	
	2018	2017
Home equity loans	$54,778	$47,032
Home equity lines of credit	393,134	407,627

Percentage of loans and lines for which Trustmark holds first lien	59.8	%	60.7	%
Percentage of loans and lines for which Trustmark does not hold first lien	40.2	%	39.3	%

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

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

The following table presents the LHFI composition by region at December 31, 2018 and reflects a diversified mix of loans by region ($ in thousands):

	December 31, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
LHFI Composition by Region						
Loans secured by real estate:						
Construction, land development and other land	$1,056,601	$360,363	$88,170	$303,166	$19,512	$285,390
Secured by 1-4 family residential properties	1,825,492	112,659	48,538	1,566,004	84,187	14,104
Secured by nonfarm, nonresidential properties	2,220,914	517,407	224,110	891,780	154,576	433,041
Other real estate secured	543,820	107,585	11,652	265,024	11,296	148,263
Commercial and industrial loans	1,538,715	203,322	17,912	784,265	354,131	179,085
Consumer loans	182,448	23,450	5,285	131,902	19,641	2,170
State and other political subdivision loans	973,818	89,244	41,979	601,579	30,201	210,815
Other loans	494,060	70,254	17,085	321,480	42,338	42,903
LHFI	$8,835,868	$1,484,284	$454,731	$4,865,200	$715,882	$1,315,771
Construction, Land Development and Other Land Loans by Region						
Lots	$63,092	$15,956	$20,124	$21,699	$1,617	$3,696
Development	62,467	8,711	8,726	32,275	695	12,060
Unimproved land	101,885	19,318	15,810	32,660	12,895	21,202
1-4 family construction	223,427	92,661	11,303	88,929	1,398	29,136
Other construction	605,730	223,717	32,207	127,603	2,907	219,296
Construction, land development and other land loans	$1,056,601	$360,363	$88,170	$303,166	$19,512	$285,390
Loans Secured by Nonfarm, Nonresidential Properties by Region						
Non-owner occupied:						
Retail	$367,722	$133,354	$53,685	$99,728	$25,273	$55,682
Office	231,642	75,179	20,623	85,040	7,848	42,952
Nursing homes/senior living	191,042	40,316	—	144,602	6,124	—
Hotel/motel	247,276	65,020	54,287	52,197	33,735	42,037
Mini-storage	100,078	11,779	6,056	35,756	606	45,881
Industrial	97,998	21,836	9,479	15,001	1,466	50,216
Health care	44,155	14,623	1,439	26,059	—	2,034
Convenience stores	30,549	3,163	—	16,600	730	10,056
Other	61,875	7,573	8,423	13,279	6,939	25,661
Total non-owner occupied loans	1,372,337	372,843	153,992	488,262	82,721	274,519
Owner-occupied:						
Office	157,762	33,428	26,123	54,448	6,591	37,172
Churches	91,542	19,046	6,611	45,426	15,839	4,620
Industrial warehouses	137,681	11,473	3,819	54,853	13,235	54,301

Health care	107,489	23,758	6,278	61,094	2,762	13,597
Convenience stores	113,378	14,526	12,803	62,101	1,206	22,742
Retail	85,025	24,664	7,619	32,491	3,858	16,393
Restaurants	52,002	4,100	1,512	27,368	17,021	2,001
Auto dealerships	31,895	8,144	319	14,428	9,004	—
Other	71,803	5,425	5,034	51,309	2,339	7,696
Total owner-occupied loans	848,577	144,564	70,118	403,518	71,855	158,522
Loans secured by nonfarm, nonresidential properties	$2,220,914	$517,407	$224,110	$891,780	$154,576	$433,041

Due to the short-term nature of most commercial real estate lending and the practice of annual renewal of commercial lines of credit, approximately one-third of Trustmark's portfolio matures in less than one year. Such a short-term maturity profile is not unusual for a

commercial bank and provides Trustmark the opportunity to obtain updated financial information from its borrowers and to actively monitor its borrowers' creditworthiness. This maturity profile is well matched with many of Trustmark's sources of funding, which are also short-term in nature.

The following table provides information regarding Trustmark's LHFI maturities by loan type at December 31, 2018 ($ in thousands):

	Maturing			
	Within One Year or Less	One Year Through Five Years	After Five Years	Total
Loans secured by real estate:				
Construction, land development and other land	$663,457	$337,067	$56,077	$1,056,601
Secured by 1-4 family residential properties	515,140	232,922	1,077,430	1,825,492
Other real estate secured	1,037,495	1,429,364	297,875	2,764,734
Commercial and industrial loans	755,064	714,127	69,524	1,538,715
Consumer loans	49,641	123,203	9,604	182,448
Other loans	337,381	446,179	684,318	1,467,878
LHFI	$3,358,178	$3,282,862	$2,194,828	$8,835,868

The following table provides information regarding Trustmark's LHFI maturities by interest rate sensitivity at December 31, 2018 ($ in thousands):

	Maturing			
	Within One Year or Less	One Year Through Five Years	After Five Years	Total
Loan Type				
Predetermined interest rates	$745,113	$2,579,522	$1,878,074	$5,202,709
Floating interest rates:				
Loans which are at contractual floor	8,009	1,309	873	10,191
Loans which are free to float	2,605,056	702,031	315,881	3,622,968
Total floating interest rates	2,613,065	703,340	316,754	3,633,159
LHFI	$3,358,178	$3,282,862	$2,194,828	$8,835,868

Trustmark's variable rate LHFI are based primarily on various prime and LIBOR interest rate bases. The following tables provide information regarding the interest rate terms of Trustmark's LHFI as of December 31, 2018 and 2017 ($ in thousands):

	December 31, 2018		
	Fixed	Variable	Total
Loans secured by real estate:			
Construction, land development and other land	$306,590	$750,011	$1,056,601

Secured by 1- 4 family residential properties	1,051,290	774,202	1,825,492
Secured by nonfarm, nonresidential properties	1,490,035	730,879	2,220,914
Other real estate secured	197,549	346,271	543,820
Commercial and industrial loans	821,343	717,372	1,538,715
Consumer loans	162,940	19,508	182,448
State and other political subdivision loans	907,685	66,133	973,818
Other loans	265,277	228,783	494,060
LHFI	$5,202,709	$3,633,159	$8,835,868

55

	December 31, 2017		
	Fixed	Variable	Total
Loans secured by real estate:			
Construction, land development and other land	$253,744	$733,880	$987,624
Secured by 1- 4 family residential properties	1,632,853	42,458	1,675,311
Secured by nonfarm, nonresidential properties	1,385,217	808,606	2,193,823
Other real estate secured	153,851	364,105	517,956
Commercial and industrial loans	522,613	1,047,732	1,570,345
Consumer loans	151,685	20,233	171,918
State and other political subdivision loans	863,262	89,221	952,483
Other loans	238,315	262,192	500,507
LHFI	$5,201,540	$3,368,427	$8,569,967

Allowance for Loan Losses, LHFI

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

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Balance at beginning of period	$76,733	$71,265	$67,619	$69,616	$66,448
Transfers (1)	1,554	—	—	—	—
LHFI charged off:					
Construction, land development and other land loans	(123)	(79)	(311)	(2,435)	(1,100)
Loans secured by 1-4 family residential properties	(1,629)	(950)	(1,319)	(2,473)	(2,505)
Loans secured by nonfarm, nonresidential properties	(1,184)	(4,231)	(3,067)	(1,439)	(390)
Other loans secured by real estate	—	(5)	(27)	(24)	(277)
Commercial and industrial loans	(18,823)	(8,286)	(6,602)	(8,081)	(2,092)
Consumer loans	(2,089)	(2,546)	(1,864)	(2,171)	(1,965)
State and other political subdivision loans	—	—	—	—	—
Other loans	(5,641)	(5,050)	(5,740)	(5,846)	(4,897)
Total charge-offs	(29,489)	(21,147)	(18,930)	(22,469)	(13,226)
Recoveries on LHFI previously charged off:					
Construction, land development and other land loans	1,124	1,428	1,380	1,773	3,608
Loans secured by 1-4 family residential properties	646	1,833	1,122	920	922
Loans secured by nonfarm, nonresidential properties	133	396	976	605	944
Other loans secured by real estate	23	69	7	136	—
Commercial and industrial loans	5,410	2,578	732	1,761	2,657
Consumer loans	2,019	1,938	4,007	3,289	3,883
State and other political subdivision loans	—	—	—	—	—
Other loans	3,144	3,279	3,395	3,613	3,169
Total recoveries	12,499	11,521	11,619	12,097	15,183
Net (charge-offs) recoveries	(16,990)	(9,626)	(7,311)	(10,372)	1,957
Provision for loan losses, LHFI	17,993	15,094	10,957	8,375	1,211
Balance at end of period	$79,290	$76,733	$71,265	$67,619	$69,616
Percentage of net charge-offs (recoveries) during period to average loans (LHFS and LHFI) outstanding during the period	0.19 %	0.11 %	0.10 %	0.15 %	-0.03 %

(1) The allowance for loan losses balance related to the remaining loans acquired in the Heritage acquisition on April 15, 2011, the Bay Bank merger on March 16, 2012 and the Reliance merger on April 7, 2017, which were reclassified from acquired impaired loans to LHFI during 2018.

At December 31, 2018, the allowance for loan losses, LHFI, was $79.3 million, an increase of $2.6 million, or 3.3%, when compared with December 31, 2017. The increase in the allowance for loan loss during 2018 was principally due to an increase in specific reserves for impaired LHFI in the Mississippi, Texas and Alabama market regions. Total allowance coverage of nonperforming LHFI, excluding specifically reviewed impaired LHFI, increased to 350.77% at December 31, 2018, compared to 320.84% at December 31, 2017 principally due to the decrease in nonperforming LHFI, excluding the specifically reviewed impaired LHFI. Allocation of Trustmark's $79.3 million allowance for loan losses, LHFI, represented 0.99% of commercial LHFI and 0.57% of consumer and home mortgage LHFI, resulting in an allowance to total LHFI of 0.90% as of December 31, 2018. This compares with an allowance to total LHFI of 0.90% at December 31, 2017, which was allocated to commercial LHFI at 0.95% and to consumer and home mortgage LHFI at 0.68%.

57

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

	Year Ended December 31, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	$76,733	$10,473	$2,819	$44,388	$5,427	$13,626
Transfers (1)	1,554	—	782	772	—	—
LHFI charged-off	(29,489)	(1,025)	(184)	(13,496)	(8,815)	(5,969)
Recoveries	12,499	428	2,090	8,720	857	404
Net (charge-offs) recoveries	(16,990)	(597)	1,906	(4,776)	(7,958)	(5,565)
Provision for loan losses, LHFI	17,993	1,299	(2,265)	208	10,953	7,798
Balance at end of period	$79,290	$11,175	$3,242	$40,592	$8,422	$15,859

	Year Ended December 31, 2017					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	$71,265	$7,188	$2,900	$43,010	$5,801	$12,366
LHFI charged-off	(21,147)	(986)	(339)	(13,910)	(1,157)	(4,755)
Recoveries	11,521	439	3,209	6,555	764	554
Net (charge-offs) recoveries	(9,626)	(547)	2,870	(7,355)	(393)	(4,201)
Provision for loan losses, LHFI	15,094	3,832	(2,951)	8,733	19	5,461
Balance at end of period	$76,733	$10,473	$2,819	$44,388	$5,427	$13,626

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

(1) The allowance for loan losses balance related to the remaining loans acquired in the Heritage acquisition on April 15, 2011, the Bay Bank merger on March 16, 2012 and the Reliance merger on April 7, 2017, which were reclassified from acquired impaired loans to LHFI during 2018.

Charge-offs exceeded recoveries for 2018 resulting in a net charge-off of $17.0 million, or 0.19% of average loans (LHFS and LHFI), compared to a net charge-off of $9.6 million, or 0.11% of average loans (LHFS and LHFI), in 2017, and a net charge-off of $7.3 million, or 0.10% of average loans (LHFS and LHFI), in 2016. The increase in net charge-offs during 2018 was primarily the result of three large problem commercial credits in the Tennessee, Texas and Mississippi market regions that were charged off during 2018. The increase in net charge-offs during 2017 was principally due to an increase in charge-offs in the Mississippi market region primarily due to two large substandard credits that were charged-off during 2017.

The provision for loan losses, LHFI represents the change in the estimated loan losses determined utilizing Trustmark's allowance for loan loss methodology net of charge-offs and recoveries of LHFI charged against net income. The provision for loan losses, LHFI, for 2018 totaled 0.20% of average loans (LHFS and LHFI), compared to 0.18% of average loans (LHFS and LHFI) in 2017 and 0.14% of average loans (LHFS and LHFI) in 2016. The increase in the provision for loan losses, LHFI for 2018 when compared to 2017 was primarily due to increases in the amount of provision expense related to new and existing impaired LHFI and net charge-offs, partially offset by declines in

provision expense related to changes in loan growth and qualitative reserve factors as well as specific reserves recorded during 2017 related to Hurricane Harvey. The increase in the provision for loan losses, LHFI for 2017 when compared to 2016 was primarily due to an increase in the amount of provision required related to existing and newly impaired LHFI, and the $1.1 million of additional reserves due to the potential loss exposure caused by Hurricane Harvey.

Nonperforming Assets, Excluding Acquired Loans

The table below provides the components of the nonperforming assets, excluding acquired loans, by geographic market region for each year in the five-year period ended December 31, 2018 ($ in thousands):

	December 31,				
	2018	2017	2016	2015	2014
Nonaccrual LHFI					
Alabama	$3,361	$3,083	$665	$1,776	$852
Florida	1,175	3,034	3,644	5,180	11,091
Mississippi	44,331	49,129	37,771	40,754	57,129
Tennessee	8,696	4,436	6,213	5,106	5,819
Texas	4,061	7,893	941	2,496	4,452
Total nonaccrual LHFI	61,624	67,575	49,234	55,312	79,343
Other real estate					
Alabama	6,873	11,714	15,989	21,578	21,196
Florida	8,771	13,937	22,582	29,579	35,324
Mississippi	17,255	14,260	15,646	14,312	17,397
Tennessee	1,025	2,535	6,183	9,974	10,292
Texas	744	782	1,651	1,734	8,300
Total other real estate	34,668	43,228	62,051	77,177	92,509
Total nonperforming assets	$96,292	$110,803	$111,285	$132,489	$171,852
Nonperforming assets/total loans (LHFS and LHFI) and other real estate	1.07 %	1.26 %	1.38 %	1.81 %	2.57 %
Loans Past Due 90 days or more					
LHFI	$856	$2,171	$1,832	$2,300	$2,764
LHFS - Guaranteed GNMA services loans (1)	$37,384	$35,544	$28,345	$21,812	$25,943

(1) No obligation to repurchase

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

Nonaccrual LHFI

At December 31, 2018, nonaccrual LHFI totaled $61.6 million, or 0.69% of total LHFS and LHFI, reflecting a decrease of $6.0 million, or 0.07% of total LHFS and LHFI, relative to December 31, 2017. The decrease in nonaccrual LHFI was principally due to resolution of three large problem credits in the Mississippi and Texas market regions partially offset by three credits moving to nonaccrual status in the Mississippi and Tennessee market regions during 2018. As of December 31, 2018, nonaccrual energy-related LHFI totaled $12.0 million and represented 7.0% of Trustmark’s total energy-related portfolio, compared to $22.0 million, or 9.7% of Trustmark’s total energy-related portfolio at December 31, 2017. The decrease in nonaccrual energy-related LHFI was principally due to the resolution of one large problem credit during 2018. For additional information regarding nonaccrual LHFI, see the section captioned “Nonaccrual and Past Due LHFI” in Note 5 – LHFI and Allowance for Loan Losses, LHFI included in Part II. Item 8. – Financial Statements and Supplementary Data of this report.

The following table illustrates nonaccrual LHFI by loan type for each year in the five-year period ended December 31, 2018 ($ in thousands):

	December 31,				
	2018	2017	2016	2015	2014
Loans secured by real estate:					
Construction, land development and other land	$2,218	$2,105	$3,323	$6,123	$13,867
Secured by 1-4 family residential properties	14,718	19,022	20,329	23,079	25,621
Secured by nonfarm, nonresidential properties	9,621	12,608	8,482	17,800	25,717
Other real estate secured	927	212	402	145	1,318
Commercial and industrial loans	23,938	33,338	15,824	7,622	12,104
Consumer loans	205	135	300	31	88
State and other political subdivision loans	8,595	—	—	—	—
Other loans	1,402	155	574	512	628
Total nonaccrual LHFI	$61,624	$67,575	$49,234	$55,312	$79,343

Other Real Estate

Other real estate at December 31, 2018 decreased $8.6 million, or 19.8%, when compared with December 31, 2017. The decrease in other real estate during 2018 was primarily due to properties sold in Trustmark's Florida, Alabama, Mississippi and Tennessee market regions partially offset by new properties foreclosed in those same market regions.

On July 1, 2016, $388 thousand of covered other real estate was transferred to other real estate as a result of the expiration of a loss-share agreement with the FDIC on June 30, 2016. At December 31, 2018, 2017 and 2016, Trustmark had no covered other real estate. The remaining loss-share agreement with the FDIC, which covers loans secured by 1-4 family residential properties, will expire in 2021.

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

	Year Ended December 31, 2018					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	$43,228	$11,714	$13,937	$ 14,260	$ 2,535	$ 782
Additions	12,115	1,563	2,637	7,533	382	—
Disposals	(19,802)	(5,217)	(7,747)	(5,035)	(1,803)	—
Write-downs	(873)	(133)	(56)	(557)	(89)	(38)
Adjustments	—	(1,054)	—	1,054	—	—
Balance at end of period	$34,668	$6,873	$8,771	$ 17,255	$ 1,025	$ 744

	Year Ended December 31, 2017					
	Total	Alabama	Florida	Mississippi	Tennessee	Texas
Balance at beginning of period	$62,051	$15,989	$22,582	$ 15,646	$ 6,183	$1,651
Additions	9,235	1,226	504	5,970	753	782
Disposals	(24,762)	(4,562)	(7,993)	(6,183)	(4,373)	(1,651)
Write-downs	(3,296)	(939)	(1,156)	(1,173)	(28)	—
Balance at end of period	$43,228	$11,714	$13,937	$ 14,260	$ 2,535	$782

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

Write-downs of other real estate decreased $2.4 million, or 73.5%, during 2018 compared to a decrease of $1.1 million, or 25.1%, during 2017. The decrease in write-downs of other real estate during 2018 was primarily due to a $1.1 million decrease in write-downs of other real estate properties in the Florida market region reflecting properties sold in this market region and a $1.1 million decline in the reserve for other real estate write-downs. The decrease in write-downs of other real estate during 2017 was principally

due to declines in other real estate write-downs in the Alabama and Tennessee market regions partially offset by an increase in write-downs of other real estate in the Mississippi and Florida market regions.

The following table illustrates other real estate by type of property for each year in the five-year period ended December 31, 2018 ($ in thousands):

	December 31,				
	2018	2017	2016	2015	2014
Construction, land development and other land properties	$16,206	$27,491	$36,871	$47,550	$61,015
1-4 family residential properties	4,983	5,081	7,926	10,732	10,150
Nonfarm, nonresidential properties	13,296	10,468	16,817	16,717	19,696
Other real estate properties	183	188	437	2,178	1,648
Total other real estate	$34,668	$43,228	$62,051	$77,177	$92,509

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.

The table below provides the carrying value of the acquired loan portfolio by loan type for each year of the five-year period ended December 31, 2018 ($ in thousands):

	December 31,				
	2018	2017	2016	2015	2014
Loans secured by real estate:					
Construction, land development and other land	$5,878	$23,586	$20,850	$42,644	$59,506
Secured by 1-4 family residential properties	22,556	61,751	69,540	97,008	130,100
Secured by nonfarm, nonresidential properties	47,979	114,694	103,820	140,264	209,995
Other real estate secured	8,253	16,746	19,010	25,146	28,909
Commercial and industrial loans	15,267	31,506	36,896	55,699	88,533
Consumer loans	1,356	2,600	3,365	5,641	9,772
Other loans	5,643	10,634	18,766	24,009	22,594
Acquired loans	106,932	261,517	272,247	390,411	549,409
Less allowance for loan losses, acquired loans	1,231	4,079	11,397	11,992	12,059
Net acquired loans	$105,701	$257,438	$260,850	$378,419	$537,350

During 2018, acquired loans declined $154.6 million, or 59.1%, compared to balances at December 31, 2017, primarily due to pay-downs and pay-offs of these acquired loans and acquired loans that were transferred to LHFI. Based on the most recent re-estimation of expected cash flows, Trustmark anticipates that acquired loan balances, excluding any settlement of debt, will decline approximately $10.0 million to $20.0 million during the first quarter of 2019. Trustmark also expects the yield on the acquired loans, excluding any recoveries, to be approximately 6.0% to 7.0% for the first quarter of 2019. As the balances in the acquired loan portfolio continue to run-off, Trustmark expects that the income benefit provided by this portfolio will also decline.

For additional information regarding acquired loans, including changes in the net carrying value, see Note 6 – Acquired Loans included in Part II. Item 8. – Financial Statements and Supplementary Data of this report.

Deposits

Trustmark's deposits are its primary source of funding and consist primarily of core deposits from the communities Trustmark serves. Deposits include interest-bearing and noninterest-bearing demand accounts, savings, money market, certificates of deposit and individual retirement accounts. Total deposits were $11.364 billion at December 31, 2018 compared to $10.578 billion at December 31, 2017, an increase of $786.9 million, or 7.4%, primarily due to

growth in interest-bearing deposits. During 2018, noninterest-bearing deposits decreased $40.5 million, or 1.4%, primarily due to a decline in commercial demand deposit accounts partially offset by growth in public demand deposit accounts, while interest-bearing deposits increased $827.4 million, or 10.9%, principally due to growth in commercial and public interest checking accounts, consumer and commercial money market deposit accounts and consumer and public certificates of deposits, reflecting increases in interest rates in general.

Short-term Borrowings

Trustmark uses short-term borrowings to fund growth of earning assets in excess of deposit growth. Short-term borrowings consist primarily of federal funds purchased, securities sold under repurchase agreements, short-term FHLB advances and GNMA optional repurchase loans. Short-term borrowings totaled $129.5 million at December 31, 2018, a decrease of $1.311 billion, or 91.0%, when compared with $1.441 billion at December 31, 2017, primarily due to declines in short-term FHLB advances with the FHLB of Dallas and upstream federal funds purchased, as a result of the growth in deposits out-pacing the growth in LHFI and the run-off of maturing investment securities. Short-term FHLB advances decreased $900.0 million during 2018 primarily due to the maturity of $525.0 million in short-term FHLB advances and prepayment of $375.0 million short-term advances with the FHLB of Dallas.

Federal funds purchased and securities sold under repurchase agreements totaled $50.5 million at December 31, 2018 compared to $469.8 million at December 31, 2017, a decrease of $419.4 million, or 89.3%. Of these amounts $50.5 million and $139.8 million, respectively, represented customer related transactions, such as commercial sweep repurchase balances. Excluding customer related transactions, Trustmark had no upstream federal funds purchased at December 31, 2018 compared to $330.0 million at December 31, 2017 primarily due to changes in Trustmark's funding and liquidity needs. See the section captioned "Liquidity" for additional information.

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

	2018	2017	2016
Federal funds purchased and securities sold under repurchase agreements:			
Amount outstanding at end of period	$50,471	$469,827	$539,817
Weighted average interest rate at end of period	0.37 %	1.06 %	0.52 %
Maximum amount outstanding at any month end during each period	$524,208	$620,698	$606,336
Average amount outstanding during each period	329,649	512,085	495,197
Weighted average interest rate during each period	1.45 %	0.81 %	0.35 %
Short-term borrowings:			
Amount outstanding at end of period	$79,006	$971,049	$769,778
Weighted average interest rate at end of period	1.05 %	1.35 %	0.72 %
Maximum amount outstanding at any month end during each period	$976,071	$1,423,787	$769,778
Average amount outstanding during each period	316,775	1,138,353	370,008
Weighted average interest rate during each period	1.58 %	1.14 %	1.00 %

Benefit Plans

Defined Benefit Plans

As disclosed in Note 15 – Defined Benefit and Other Postretirement Benefits included in Part II. Item 8. – Financial Statements and Supplementary Data of this report, Trustmark maintained a noncontributory tax-qualified defined benefit pension 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. Benefit accruals under the Plan were frozen in 2009, with the exception of benefit accruals for certain associates of acquired financial institutions covered through plans that were subsequently merged into the Plan. As previously reported, on July 26, 2016, the Board of Directors of Trustmark authorized the termination of the Plan, effective as of December 31, 2016.

During the second quarter of 2017, Trustmark fully funded the Plan on a termination basis by contributing additional assets in the amount of $17.6 million in accordance with the IRS and Pension Benefit Guaranty Corporation requirements. Participants in the plan elected to receive either a lump sum cash payment or annuity payments under a group annuity contract purchased from an insurance carrier. Final distributions were made to participants from plan assets and a one-time pension settlement expense was recognized totaling $17.6 million.

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, the Continuing Plan, effective as of December 30, 2016, immediately prior to the termination of the Plan.

At December 31, 2018, the fair value of the Continuing Plan's assets totaled $4.0 million and was exceeded by the projected benefit obligation of $9.2 million by $5.2 million. Net periodic benefit cost equaled $1.1 million in 2018, compared with $20.5 million in

2017 and $7.5 million in 2016. The increase in the net periodic benefit cost during 2017 was principally due to the $17.6 million one-time pension settlement expense as a result of the termination of the Plan. Excluding this one-time pension settlement expense, net periodic benefit cost during 2017 totaled $2.8 million.

The fair value of plan assets is determined utilizing current market quotes, while the benefit obligation and periodic benefit costs are determined utilizing actuarial methodology with certain weighted-average assumptions. For 2018, 2017 and 2016, the process used to select the discount rate assumption under FASB ASC Topic 715 takes into account the benefit cash flow and the segmented yields on high-quality corporate bonds that would be available to provide for the payment of the benefit cash flow. Assumptions, which have been chosen to represent the estimate of a particular event as required by GAAP, have been reviewed and approved by Management based on recommendations from its actuaries. For additional information regarding the assumptions used by Management, please refer to the section captioned "Critical Accounting Policies – Defined Benefit Plans."

The range of potential contributions to the Continuing Plan is determined annually by the Continuing Plan's actuary in accordance with applicable IRS rules and regulations. Trustmark's policy is to fund amounts that are sufficient to satisfy the annual minimum funding requirements and do not exceed the maximum that is deductible for federal income tax purposes. The actual amount of the contribution is determined annually based on the Continuing Plan's funded status and return on plan assets as of the measurement date, which is December 31. For the plan year ending December 31, 2018, Trustmark's minimum required contribution to the Continuing Plan was $148 thousand. During 2018, Trustmark contributed $275 thousand to the Continuing Plan for the plan year ended December 31 2018. For the plan year ending December 31, 2019, Trustmark's minimum required contribution to the Continuing Plan is expected to be $160 thousand; however, Management and the Board of Directors of Trustmark will monitor the Continuing Plan throughout 2019 to determine any additional funding requirements by the plan's measurement date.

Supplemental Retirement Plans

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

At December 31, 2018, the accrued benefit obligation for the supplemental retirement plans equaled $53.3 million, while the net periodic benefit cost equaled $3.1 million in 2018, $3.4 million in 2017 and $3.6 million in 2016. The net periodic benefit cost and projected benefit obligation are determined using actuarial assumptions as of the plans' measurement date, which is December 31. The process used to select the discount rate assumption under FASB ASC Topic 715 takes into account the benefit cash flow and the segmented yields on high-quality corporate bonds that would be available to provide for the payment of the benefit cash flow. At December 31, 2018, unrecognized actuarial losses and unrecognized prior service costs continue to be amortized over future service periods.

Legal Environment

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

Trustmark is obligated to make payments under specific long-term and certain other binding contractual arrangements. The following table provides a schedule of the amount of the payments due under those obligations as of December 31, 2018 ($ in thousands):

	Less than One Year	One to Three Years	Three to Five Years	After Five Years	Total
Time deposits	$1,478,845	$351,523	$54,540	$2,991	$1,887,899
Securities sold under repurchase agreements	45,509	—	—	—	45,509
FHLB advances	—	726	—	153	879
Junior subordinated debt securities	—	—	—	61,856	61,856
Operating lease obligations	8,680	15,337	12,468	29,673	66,158
Total	$1,533,034	$367,586	$67,008	$94,673	$2,062,301

Capital Resources

At December 31, 2018, Trustmark's total shareholders' equity was $1.591 billion, an increase of $19.8 million, or 1.3%, when compared to December 31, 2017. During 2018, shareholders' equity increased primarily as a result of net income of $149.6 million partially offset by common stock dividends of $62.4 million and common stock repurchases of $62.4 million. Trustmark utilizes a capital model in order to provide Management with a monthly tool for analyzing changes in its strategic capital ratios. This allows Management to hold sufficient capital to provide for growth opportunities and protect the balance sheet against sudden adverse market conditions, while maintaining an attractive return on equity to shareholders.

Regulatory Capital

Trustmark and TNB are subject to minimum risk-based capital and leverage capital requirements, as described in the section captioned "Capital Adequacy" included in Part I. Item 1. – Business of this report, which are administered by the federal bank regulatory agencies. These capital requirements, as defined by federal regulations, involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet instruments. Trustmark's and TNB's minimum risk-based capital requirements include the phased in capital conservation buffer of 1.875% and 1.250% at December 31, 2018 and 2017, respectively. AOCL is not included in computing regulatory capital. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of Trustmark and TNB and limit Trustmark's and TNB's ability to pay dividends. As of December 31, 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 December 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, and were not subject to any written agreement, order or capital directive, or prompt corrective action directive issued by their primary federal regulators to meet and maintain a specific capital level for any capital measures. There are no significant conditions or events that have occurred since December 31, 2018, which Management believes have affected Trustmark's or TNB's present classification.

In 2006, Trustmark enhanced its capital structure with the issuance of trust preferred securities. For regulatory capital purposes, the trust preferred securities qualified as Tier 1 capital at December 31, 2018 and 2017. Trustmark intends to continue to utilize $60.0 million in trust preferred securities issued by the Trust as Tier 1 capital up to the regulatory limit, as permitted by the grandfather provision in the Dodd-Frank Act and the Basel III Final Rule.

Refer to the section captioned “Regulatory Capital” included in Note 18 – Shareholders’ Equity in Part II. Item 8. – Financial Statements and Supplementary Data of this report for an illustration of Trustmark’s and TNB’s actual regulatory capital amounts and ratios under regulatory capital standards in effect at December 31, 2018 and 2017.

Dividends on Common Stock

Dividends per common share for each of the years ended December 31, 2018, 2017 and 2016 were $0.92. Trustmark’s dividend payout ratio for 2018, 2017 and 2016 was 41.44%, 58.97%, and 57.50%, respectively. Approval by TNB’s regulators is required if the total of all dividends declared in any calendar year exceeds the total of its net income for that year combined with its retained net income of the preceding two years. In 2019, TNB will have available approximately $66.0 million plus its net income for that year to pay as dividends to Trustmark. The actual amount of any dividends declared in 2019 by Trustmark will be determined by Trustmark’s Board of Directors.

Liquidity

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

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

During 2018, Trustmark reduced its funding needs from external sources as a result of growth in deposits out-pacing growth in LHFI and Management's decision during the fourth quarter of 2017 to suspend reinvestment of security cash flows and allow the run-off of maturing investment securities. The reduction in Trustmark's funding needs from external sources is reflected in the changes in balances from its various borrowing sources which are discussed below.

Deposit accounts represent Trustmark's largest funding source. Average deposits totaled to $10.980 billion for 2018 and represented approximately 81.5% of average liabilities and shareholders' equity, compared to average deposits of $10.182 billion, which represented 74.2% of average liabilities and shareholders' equity for 2017.

Trustmark utilizes a limited amount of brokered deposits to supplement other wholesale funding sources. At December 31, 2018, brokered sweep Money Market Deposit Account (MMDA) deposits totaled $23.9 million compared to $38.6 million at December 31, 2017.

At December 31, 2018, Trustmark had no upstream federal funds purchased, compared to $330.0 million at December 31, 2017. Trustmark maintains adequate federal funds lines to provide sufficient short-term liquidity.

Trustmark maintains a relationship with the FHLB of Dallas, which provided no outstanding short-term or long-term advances at December 31, 2018 compared to $900.0 million of outstanding short-term advances and no outstanding long-term advances at December 31, 2017. Under the existing borrowing agreement, Trustmark had sufficient qualifying collateral to increase FHLB advances with the FHLB of Dallas by $2.827 billion at December 31, 2018.

In addition, at December 31, 2018, Trustmark had $879 thousand in FHLB advances outstanding with the FHLB of Atlanta, which were acquired in the BancTrust merger, compared to $958 thousand at December 31, 2017. Trustmark has non-member status and thus no additional borrowing capacity with the FHLB of Atlanta.

Additionally, Trustmark has the ability to leverage its unencumbered investment securities as collateral. At December 31, 2018, Trustmark had approximately $496.2 million available in unencumbered agency securities compared to $1.299 billion at December 31, 2017. The decrease was primarily due to Management's decision to suspend reinvestment of security cash flows during the fourth quarter of 2017.

Another borrowing source is the Discount Window. At December 31, 2018, Trustmark had approximately $1.012 billion available in collateral capacity at the Discount Window from pledges of commercial and industrial LHFI,

compared with $1.042 billion at December 31, 2017.

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

The Board of Directors of Trustmark currently has the authority to issue up to 20.0 million preferred shares with no par value. The ability to issue preferred shares in the future will provide Trustmark with additional financial and management flexibility for general corporate and acquisition purposes. At December 31, 2018, Trustmark had no shares of preferred stock issued and outstanding.

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

Asset/Liability Management

Overview

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

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

Derivatives

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

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

No ineffectiveness related to the interest rate swap designated as a cash flow hedge was recognized in the consolidated statements of income during the years ended December 31, 2018, 2017 and 2016. The accumulated net after-tax gain related to the effective cash flow hedge included in AOCL totaled $469 thousand at December 31, 2018 compared to a net after-tax gain of $278 thousand at December 31, 2017. Amounts reported in AOCL related to this derivative are reclassified to other interest expense as interest payments are made on Trustmark's variable rate junior subordinated debentures. During the next twelve months, Trustmark estimates that $625 thousand will be reclassified as a decrease to other interest expense.

As part of Trustmark's risk management strategy in the mortgage banking business, various derivative instruments such as interest rate lock commitments and forward sales contracts are utilized. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified period of time. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. The gross notional amount of Trustmark's off-balance sheet obligations under these derivative instruments totaled $203.2 million at December 31, 2018, with a negative valuation adjustment of $586 thousand, compared to $265.0 million, with a positive valuation adjustment of $663 thousand at December 31, 2017.

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in fair value of the MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting under GAAP. The total notional amount of these derivative instruments were $318.0 million at December 31, 2018 compared to $349.0 million at December 31, 2017. These exchange-traded derivative instruments are accounted for at fair value with changes in the fair value recorded as

noninterest income in mortgage banking, net and are offset by the changes in the fair value of the MSR. The MSR fair value represents the present value of future cash flows, which among other things includes decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the change in value of hedge instruments to the change in the fair value of the MSR asset attributable to changes in interest rates and other market driven changes in valuation inputs and assumptions. The impact of this strategy resulted in a net positive ineffectiveness of $2.4 million for the year ended December 31, 2018, compared to a net positive ineffectiveness of $254 thousand for the year ended December 31, 2017 and a net negative ineffectiveness of $2.9 million for the year ended December 31, 2016, respectively. The increase in the net positive ineffectiveness was primarily due to the mortgage spread widening during 2018 and 2017.

Trustmark offers certain interest rate derivatives products directly to qualified commercial lending clients seeking to manage their interest rate risk under loans they have entered into with TNB. Trustmark economically hedges interest rate swap transactions executed with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivatives transactions executed as part of this program are not designated as qualifying hedging relationships under GAAP and are, therefore, carried on Trustmark's financial statements at fair value with the change in fair value recorded as noninterest income in bank card and other fees. Because these derivatives have mirror-image contractual terms, in addition to collateral provisions which mitigate the impact of non-performance risk, the changes in fair value are expected to substantially offset. As of December 31, 2018, Trustmark had interest rate swaps with an aggregate notional amount of $475.8 million related to this program, compared to $351.9 million as of December 31, 2017.

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

As of December 31, 2018 and 2017, the termination value of interest rate swaps in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $75 thousand and $80 thousand, respectively. As of December 31, 2018, Trustmark had no posted collateral against its obligations because of negotiated thresholds and minimum transfer amounts under these agreements. If Trustmark had breached any of these triggering provisions at December 31, 2018, it could have been required to settle its obligations under the agreements at the termination value (which is expected to approximate fair market value).

Credit risk participation agreements arise when Trustmark contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. At December 31, 2018, Trustmark had entered into three risk participation agreements as a beneficiary with an aggregate notional amount of $23.1 million, compared to two risk participation agreements as a beneficiary with an aggregate notional amount of $13.7 million at December 31, 2017. As of December 31, 2018, Trustmark had entered into seven risk participation agreements as a guarantor with an aggregate notional amount of $39.0 million compared to six risk participation agreements as a guarantor with an aggregate notional amount of $37.1 million at December 31, 2017. The aggregate fair values of these risk participation agreements were immaterial at December 31, 2018 and 2017.

Trustmark's participation in the derivatives markets is subject to increased federal regulation of these markets. Trustmark believes that it may continue to use financial derivatives to manage interest rate risk and also to offer derivatives products to certain qualified commercial lending clients in compliance with the Volcker Rule. However, the increased federal regulation of the derivatives markets has increased the cost to Trustmark of administering its derivatives programs. Some of these costs (particularly compliance costs related to the Volcker Rule and other federal regulations) are expected to recur in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Market/Interest Rate Risk Management

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

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

incorporates Management's assumptions and expectations regarding such factors as loan and deposit growth, pricing, prepayment speeds and spreads between interest rates.

Based on the results of the simulation models using static balances, the table below summarizes the effect various one-year interest rate shift scenarios would have on net interest income compared to a base case, flat scenario at December 31, 2018 and 2017. At December 31, 2018 and 2017, the impact of a 200 basis point drop scenario was not calculated due to the low interest rate environment.

	Estimated % Change in Net Interest Income	
Change in Interest Rates	2018	2017
+200 basis points	-0.9%	-2.1%
+100 basis points	-0.5%	-1.0%
-100 basis points	-1.2%	-4.2%

As shown in the table above, the interest rate shocks for 2018 illustrate little change in net interest income in rising rate scenarios or a falling rate environment. Management cannot provide any assurance about the actual effect of changes in interest rates on net interest income. The estimates provided do not include the effects of possible strategic changes in the balances of various assets and liabilities throughout 2019 or additional actions Trustmark could undertake in response to changes in interest rates. Management will continue to prudently manage the balance sheet in an effort to control interest rate risk and maintain profitability over the long term.

Another component of interest rate risk management is measuring the economic value-at-risk for a given change in market interest rates. The economic value-at-risk may indicate risks associated with longer-term balance sheet items that may not affect net interest income at risk over shorter time periods. Trustmark uses computer-modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The economic value of equity (EVE), also known as net portfolio value, is defined as the difference between the present value of asset cash flows and the present value of liability cash flows. The resulting change in EVE in different market rate environments, from the base case scenario, is the amount of EVE at risk from those rate environments. The following table summarizes the effect that various interest rate shifts would have on net portfolio value at December 31, 2018 and 2017. At December 31, 2018 and 2017, the impact of a 200 basis point drop scenario was not calculated due to the low interest rate environment.

	Estimated % Change in Net Portfolio Value	
Change in Interest Rates	2018	2017
+200 basis points	-3.2%	3.3%
+100 basis points	-1.1%	2.2%
-100 basis points	-1.8%	-10.0%

Trustmark determines the fair value of the MSR using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate,

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

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

At December 31, 2018, the MSR fair value was approximately $95.6 million, compared to $84.3 million at December 31, 2017. The impact on the MSR fair value of a 10% adverse change in prepayment speeds or a 100 basis point increase in discount rates at December 31, 2018, would be a decline in fair value of approximately $3.3 million and $3.7 million, respectively, compared to a decline in fair value of approximately $3.1 million for both at December 31, 2017. Changes of equal magnitude in the opposite direction would produce similar increases in fair value in the respective amounts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Trustmark Corporation

Jackson, Mississippi

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Trustmark Corporation and subsidiaries (the "Corporation") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Corporation's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Crowe LLP

We have served as the Corporation's auditor since 2015, which is the year the engagement letter was signed for the audit of the 2016 financial statements.

Atlanta, Georgia

February 19, 2019

Trustmark Corporation and Subsidiaries

Consolidated Balance Sheets

($ in thousands except share data)

	December 31,	
	2018	2017
Assets		
Cash and due from banks (noninterest-bearing)	$349,561	$335,768
Federal funds sold and securities purchased under reverse repurchase agreements	830	615
Securities available for sale (at fair value)	1,811,813	2,238,635
Securities held to maturity (fair value: $889,733-2018; $1,046,247-2017)	909,643	1,056,486
Loans held for sale (LHFS)	153,799	180,512
Loans held for investment (LHFI)	8,835,868	8,569,967
Less allowance for loan losses, LHFI	79,290	76,733
Net LHFI	8,756,578	8,493,234
Acquired loans	106,932	261,517
Less allowance for loan losses, acquired loans	1,231	4,079
Net acquired loans	105,701	257,438
Net LHFI and acquired loans	8,862,279	8,750,672
Premises and equipment, net	178,668	179,339
Mortgage servicing rights	95,596	84,269
Goodwill	379,627	379,627
Identifiable intangible assets, net	11,112	16,360
Other real estate	34,668	43,228
Other assets	498,864	532,442
Total Assets	$13,286,460	$13,797,953
Liabilities		
Deposits:		
Noninterest-bearing	$2,937,594	$2,978,074
Interest-bearing	8,426,817	7,599,438
Total deposits	11,364,411	10,577,512
Federal funds purchased and securities sold under repurchase agreements	50,471	469,827
Short-term borrowings	79,006	971,049
Long-term Federal Home Loan Bank (FHLB) advances	879	946
Junior subordinated debt securities	61,856	61,856
Other liabilities	138,384	145,062
Total Liabilities	11,695,007	12,226,252
Shareholders' Equity		
Common stock, no par value:		
Authorized: 250,000,000 shares		
Issued and outstanding: 65,834,395 shares - 2018; 67,746,094 shares - 2017	13,717	14,115
Capital surplus	309,545	369,124
Retained earnings	1,323,870	1,228,187
Accumulated other comprehensive loss, net of tax	(55,679)	(39,725)
Total Shareholders' Equity	1,591,453	1,571,701

Total Liabilities and Shareholders' Equity	$13,286,460	$13,797,953

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Income

($ in thousands except per share data)

	Years Ended December 31,		
	2018	2017	2016
Interest Income			
Interest and fees on LHFS & LHFI	$395,969	$344,625	$299,645
Interest and fees on acquired loans	17,115	24,478	30,144
Interest on securities:			
Taxable	66,082	76,192	77,614
Tax exempt	2,236	3,001	3,675
Interest on federal funds sold and securities purchased under reverse repurchase agreements	14	33	14
Other interest income	4,196	1,466	988
Total Interest Income	485,612	449,795	412,080
Interest Expense			
Interest on deposits	53,936	22,717	12,748
Interest on federal funds purchased and securities sold under repurchase agreements	4,788	4,152	1,717
Other interest expense	7,468	15,376	10,082
Total Interest Expense	66,192	42,245	24,547
Net Interest Income	419,420	407,550	387,533
Provision for loan losses, LHFI	17,993	15,094	10,957
Provision for loan losses, acquired loans	(1,005)	(7,395)	3,757
Net Interest Income After Provision for Loan Losses	402,432	399,851	372,819
Noninterest Income			
Service charges on deposit accounts	43,702	44,003	45,253
Bank card and other fees	28,905	28,286	27,906
Mortgage banking, net	34,674	29,902	28,212
Insurance commissions	40,481	38,168	36,764
Wealth management	30,338	30,340	30,492
Other, net	6,736	13,949	5,626
Securities gains (losses), net	—	15	(310)
Total Noninterest Income	184,836	184,663	173,943
Noninterest Expense			
Salaries and employee benefits	238,033	229,265	229,250
Defined benefit plan termination	—	17,644	—
Services and fees	66,382	60,893	58,695
Net occupancy - premises	26,703	25,767	24,982
Equipment expense	24,830	24,453	24,225
Other real estate expense	2,002	3,672	586
FDIC assessment expense	9,429	11,010	11,243
Other expense	48,036	57,465	58,317
Total Noninterest Expense	415,415	430,169	407,298

Income Before Income Taxes	171,853	154,345	139,464
Income taxes	22,269	48,715	31,053
Net Income	$149,584	$105,630	$108,411
Earnings Per Share			
Basic	$2.22	$1.56	$1.60
Diluted	$2.21	$1.56	$1.60

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands)

	Years Ended December 31,		
	2018	2017	2016
Net income per consolidated statements of income	$149,584	$105,630	$108,411
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	(14,416)	(8,641)	(9,667)
Reclassification adjustment for net (gains) losses realized in net income	—	(9)	191
Change in net unrealized holding loss on securities transferred to held to maturity	2,821	2,915	6,070
Pension and other postretirement benefit plans:			
Change in the actuarial loss of pension and other postretirement benefit plans	2,806	(760)	(148)
Reclassification adjustments for changes realized in net income:			
Net change in prior service costs	187	154	154
Recognized net loss due to lump sum settlements	122	—	2,412
Change in net actuarial loss	919	1,211	442
Recognized net loss due to defined benefit plan termination	—	10,907	—
Derivatives:			
Change in the accumulated gain (loss) on effective cash flow hedge derivatives	373	122	(228)
Reclassification adjustment for (gain) loss realized in net income	(242)	174	370
Other comprehensive income (loss), net of tax	(7,430)	6,073	(404)
Comprehensive income	$142,154	$111,703	$108,007

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

($ in thousands except per share data)

	Common Stock Shares Outstanding	Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2016	67,559,128	$14,076	$361,467	$1,142,908	$ (45,394)	$1,473,057
Net income per consolidated statements of income	—	—	—	108,411	—	108,411
Other comprehensive income (loss), net of tax	—	—	—	—	(404)	(404)
Cash dividends paid on common stock ($0.92 per share)	—	—	—	(62,666)	—	(62,666)
Common stock issued, long-term incentive plan	103,112	22	2,155	(3,301)	—	(1,124)
Repurchase and retirement of common stock	(33,622)	(7)	(743)	—	—	(750)
Compensation expense, long-term incentive plan	—	—	3,684	—	—	3,684
Balance, December 31, 2016	67,628,618	14,091	366,563	1,185,352	(45,798)	1,520,208
Net income per consolidated statements of income	—	—	—	105,630	—	105,630
Other comprehensive income (loss), net of tax	—	—	—	—	6,073	6,073
Cash dividends paid on common stock ($0.92 per share)	—	—	—	(62,795)	—	(62,795)
Shares withheld to pay taxes, long-term incentive plan	117,476	24	(1,748)	—	—	(1,724)

Compensation expense, long-term incentive plan	—	—	4,309	—	—	4,309
Balance, December 31, 2017	67,746,094	14,115	369,124	1,228,187	(39,725)	1,571,701
Net income per consolidated statements of income	—	—	—	149,584	—	149,584
Other comprehensive income (loss), net of tax	—	—	—	—	(7,430)	(7,430)
Cash dividends paid on common stock ($0.92 per share)	—	—	—	(62,425)	—	(62,425)
Shares withheld to pay taxes, long-term incentive plan	118,108	25	(1,451)	—	—	(1,426)
Accumulated other comprehensive loss adjustment, Tax Cuts and Jobs Act of 2017 (Tax Reform Act)	—	—	—	8,524	(8,524)	—
Repurchase and retirement of common stock	(2,029,807)	(423)	(61,998)	—	—	(62,421)
Compensation expense, long-term incentive plan	—	—	3,870	—	—	3,870
Balance, December 31, 2018	65,834,395	$13,717	$309,545	$1,323,870	$ (55,679)	$1,591,453

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands)

	Years Ended December 31,		
	2018	2017	2016
Operating Activities			
Net income per consolidated statements of income	$149,584	$105,630	$108,411
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses, net	16,988	7,699	14,714
Depreciation and amortization	38,940	38,471	36,613
Net amortization of securities	9,181	10,964	9,664
Securities (gains) losses, net	—	(15)	310
Gains on sales of loans, net	(21,615)	(18,933)	(20,531)
Deferred income tax provision	11,740	26,068	18,000
Proceeds from sales of loans held for sale	1,114,020	1,197,821	1,404,852
Purchases and originations of loans held for sale	(1,052,339)	(1,179,187)	(1,392,155)
Originations of mortgage servicing rights	(15,759)	(15,860)	(16,745)
Earnings on bank-owned life insurance	(5,358)	(5,025)	(4,883)
Net change in other assets	(1,891)	23,451	(20,129)
Net change in other liabilities	(1,277)	9,093	7,284
Other operating activities, net	(3,016)	6,430	2,932
Net cash from operating activities	239,198	206,607	148,337
Investing Activities			
Proceeds from maturities, prepayments and calls of securities held to maturity	149,308	174,976	277,373
Proceeds from maturities, prepayments and calls of securities available for sale	423,617	467,194	486,915
Proceeds from sales of securities available for sale	—	27,682	24,693
Purchases of securities held to maturity	—	(69,989)	(239,446)
Purchases of securities available for sale	(23,901)	(346,159)	(547,112)
Net proceeds from bank-owned life insurance	1,824	3,623	2,585
Net change in federal funds sold and securities purchased under reverse repurchase agreements	(215)	6,785	(250)
Net change in member bank stock	35,451	4,474	(8,386)
Net change in loans	(140,710)	(608,886)	(677,296)
Purchases of premises and equipment	(14,644)	(13,219)	(10,208)
Proceeds from sales of premises and equipment	772	8,377	6,799
Proceeds from sales of other real estate	20,502	26,849	42,809
Purchases of software	(13,195)	(5,498)	(8,024)
Investments in tax credit and other partnerships	(22)	(5,296)	(116)
Net cash used in business acquisition	—	(19,775)	—
Net cash from investing activities	438,787	(348,862)	(649,664)

Financing Activities			
Net change in deposits	786,899	355,342	467,782
Net change in federal funds purchased and securities sold under repurchase agreements	(419,356)	(69,990)	98,775
Net change in short-term borrowings	(905,396)	(67,451)	(150,748)
Payments on long-term FHLB advances	(67)	(65)	(94)
Proceeds from long-term FHLB advances	—	—	250,000
Redemption of junior subordinated debt securities	—	(3,000)	—
Payment of subordinated debt	—	—	(50,000)
Common stock dividends	(62,425)	(62,795)	(62,666)
Repurchase and retirement of common stock	(62,421)	—	(750)
Shares withheld to pay taxes, long-term incentive plan	(1,426)	(1,724)	(1,017)
Net cash from financing activities	(664,192)	150,317	551,282
Net change in cash and cash equivalents	13,793	8,062	49,955
Cash and cash equivalents at beginning of year	335,768	327,706	277,751
Cash and cash equivalents at end of year	$349,561	$335,768	$327,706

See notes to consolidated financial statements.

Note 1 – Significant Accounting Policies

Business

Trustmark Corporation (Trustmark) is a bank holding company headquartered in Jackson, Mississippi. Through its subsidiaries, Trustmark operates as a financial services organization providing banking and financial solutions to corporate institutions and individual customers through 196 offices in Alabama, Florida, Mississippi, Tennessee and Texas.

Basis of Financial Statement Presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with these accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting periods and the related disclosures. Although Management's estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that in 2019 actual conditions could vary from those anticipated, which could affect Trustmark's financial condition and results of operations. Actual results could differ from those estimates.

Securities

Securities are classified as either held to maturity or available for sale. Securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and the ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income (loss), net of tax. Securities available for sale are used as part of Trustmark's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment rates and other factors. Management determines the appropriate classification of securities at the time of purchase.

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

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

Trustmark reviews securities for impairment quarterly. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized as a component of other comprehensive income (loss), net of tax. In estimating other-than-temporary

impairment losses, Management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and Trustmark's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale (LHFS)

Primarily, all mortgage loans purchased from wholesale customers or originated in Trustmark's General Banking Segment are considered to be held for sale. In certain circumstances, Trustmark will retain a mortgage loan in its portfolio based on banking relationships or certain investment strategies. Trustmark has elected to account for its LHFS under the fair value option permitted by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825, "Financial Instruments," with interest income on the LHFS reported in interest and fees on LHFS and LHFI. Trustmark reports unrealized gains and losses resulting from changes in the fair value of the LHFS accounted for under the fair value option as noninterest income in mortgage banking, net. LHFS are actively managed and monitored and certain market risks of the loans may be mitigated through the use of derivatives. These derivative instruments are carried at fair value with changes in the fair value reported as noninterest income in mortgage banking, net. Changes in the fair value of the LHFS are largely offset by changes in the fair value of the derivative instruments. Election of the fair value option allows Trustmark to reduce the accounting volatility that would otherwise result from the asymmetry

created by accounting for its LHFS at the lower of cost or fair value and the derivative instruments at fair value. Realized gains and losses upon ultimate sale of the loans are reported as noninterest income in mortgage banking, net.

Government National Mortgage Association (GNMA) optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. Under FASB ASC Topic 860, "Transfers and Servicing," this buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When Trustmark is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as LHFS, regardless of whether Trustmark intends to exercise the buy-back option. These loans are reported as LHFS with the offsetting liability being reported as short-term borrowings. The fair value option election does not apply to the GNMA optional repurchase loans which do not meet the requirements under FASB ASC Topic 825 to be accounted for under the fair value option.

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

Loans Held for Investment (LHFI)

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

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

A LHFI is considered impaired when, based on current information and events, it is probable that Trustmark will be unable to collect all amounts due according to the contractual terms of the loan agreement. In accordance with FASB ASC Subtopic 310-40-35, "Troubled Debt Restructurings by Creditors: Subsequent Measurement," all loans restructured in a troubled debt restructuring (TDR), without regard to a loan's accrual status, are impaired loans. Additionally, Trustmark specifically reviews all commercial nonaccrual relationships of $500 thousand or more for impairment. Trustmark considers all commercial nonaccrual relationships of $500 thousand or more, which have been specifically reviewed for impairment and deemed impaired, and all LHFI classified as TDRs to be individually evaluated impaired LHFI. If a LHFI that has been specifically reviewed for impairment is deemed

impaired, the full difference between the book value and the estimated net realizable value of the collateral is charged off or a specific valuation allowance is established. Commercial nonaccrual relationships under $500 thousand are not specifically reviewed for impairment due to the insignificant number and dollar amount of these types of loans. Nonaccrual LHFI includes both individually evaluated impaired LHFI as well as smaller balance homogeneous loans that are collectively evaluated for impairment. Consistent with the policy for nonaccrual LHFI, interest payments on impaired LHFI, with the exception of TDRs in accrual status, are applied to principal. Impaired LHFI, or portions thereof, are charged off when deemed uncollectible.

Troubled Debt Restructuring

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

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

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

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

All loans whose terms have been modified in a troubled debt restructuring are evaluated for impairment under FASB ASC Topic 310, "Receivables." 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. Thus, the loan is treated as if assets have been received in satisfaction of the loan and reported as a foreclosed asset.

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.

Allowance for Loan Losses, LHFI

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

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

judgments as described below.

Historical Valuation Allowance

The historical valuation allowance is derived by application of a historical net loss percentage to the outstanding balances of LHFI contained in designated pools and risk rating categories. Pools are established by grouping credits that display similar characteristics and trends such as commercial LHFI for working capital purposes and non-working capital purposes, commercial purpose LHFI secured by real estate (which are further segregated into 1-4 family construction, non 1-4 family construction, land, lots and development, owner-occupied and non-owner occupied categories), other commercial loans, 1-4 family LHFI, 1-4 family LHFI

secured by junior liens and other consumer LHFI. Within these pools, LHFI are further segregated based on Trustmark's internal credit risk rating process that evaluates, among other things: the obligor's ability and willingness to pay, the value of underlying collateral, the ability of guarantors to meet their payment obligations, management experience and effectiveness, and the economic environment and industry in which the borrower operates. The historical net loss percentages, calculated on a quarterly basis, are proportionally distributed to each risk rate within loan groups based upon degree of risk. Using third-party default data, which is updated annually to incorporate the most recent year's information, average cumulative issuer-weighted global default rates by alphanumeric rating are aggregated by Trustmark's commercial loan risk rates. Management uses the long-term default rates to measure the relative risk across the risk rates while the 12-quarter quantitative loss rate sets the absolute level of allowance for loan loss reserve. Further, given the volatility in the default data, the longer look-back period provides for a more stable allowance for loan loss estimate which better reflects the incremental risk across the risk rates.

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

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

Loans-Specific Valuation Allowance

Once a LHFI is classified, it is subject to periodic review to determine whether or not the loan is impaired. If determined to be impaired, the loan is evaluated using one of the valuation criteria contained in FASB ASC Topic 310 (i.e., individually or collectively evaluated), and a specific valuation allowance is allocated, if necessary, so that the loan is reported at the net realizable value.

Qualitative Risk Valuation Allowance

The qualitative risk valuation allowance is based on general economic conditions and other internal and external factors affecting Trustmark as a whole as well as specific LHFI. Factors considered include the following within Trustmark's five key market regions: the experience, ability, and effectiveness of Trustmark's lending management and staff; adherence to Trustmark's loans policies, procedures and internal controls; the volume of exceptions relating to collateral, underwriting and financial documentation; credit concentrations; recent performance trends; regional economic trends; the impact of recent acquisitions; and the impact of significant natural disasters. These factors are evaluated on a quarterly basis with the results representing Trustmark's qualitative risk profile in the current period which is used to establish an appropriate allowance. The qualitative portion of the commercial and consumer LHFI allowance for loan loss methodology also incorporates the use of maximum observed gross historical losses observed through the last economic cycle as a way to calculate a maximum qualitative reserve limit. The maximum observed gross historical losses as a percentage of the loan balances results in a maximum observed gross historical loss rate. Once the quantitative component of the allowance for loan loss methodology is calculated, the quantitative reserve percentage is deducted from the maximum observed gross historical loss rate to determine the maximum possible qualitative reserve limit. Management uses its qualitative factor evaluation process in conjunction with this maximum to determine the appropriate estimate of the qualitative considerations not captured by Trustmark's historical loss rates.

Other factors included in the qualitative risk valuation allowance include consideration of: commercial loan facility risk that embodies the nature, frequency and duration of the repayment structure as it pertains to the actual source of

loan repayment, commercial nonaccrual relationships under $500 thousand which are below the threshold to perform a specific impairment analysis, and independent consumer credit bureau scores that are monitored to identify shifts in risk that are represented in the retail portfolio. These factors are also evaluated on a quarterly basis with the exception of the commercial nonaccrual relationships under $500 thousand which are evaluated monthly.

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

Acquired Loans

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

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

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

Trustmark aggregates certain acquired impaired loans into pools of loans with common credit risk characteristics such as loan type and risk rating. To establish accounting pools of acquired impaired loans, loans are first categorized by similar purpose, collateral and geographic region. Within each category, the acquired impaired loans are further segmented by ranges of risk determinants observed at the time of acquisition. For commercial loans, the primary risk determinant is the risk rating as assigned by Trustmark. For consumer loans, the risk determinants include delinquency, delinquency history and FICO scores. Statistical comparison of the pools reflect that each pool is comprised of acquired impaired loans generally of similar characteristics, including loan type, loan risk and weighted average life. Each pool is then reviewed for similarity of the pool constituents, including standard deviation of purchase price, weighted average life and concentration of the largest loans. Loan pools are initially booked at the aggregate fair value of the loan pool constituents, based on the present value of Trustmark's expected cash flows from the acquired impaired loans. An acquired impaired loan is removed from a pool of loans only if the loan is sold, foreclosed, payment is received in full satisfaction of the loan or the loan is fully charged off. The acquired impaired loan is removed from the pool at the carrying value. When an individual acquired impaired loan is removed from a pool of loans, the difference between its relative carrying amount and the cash, collateral (measured at fair value) or other assets received will be recognized as a gain or loss immediately in interest income on acquired loans and would not affect the effective yield used to recognize the accretable yield on the remaining pool. Certain acquired impaired loans are not pooled and are accounted for individually. Such acquired impaired loans are withheld from pools due to the inherent uncertainty of the timing and amount of their cash flows or because they are not a suitable similar constituent to the established pools.

As required by FASB ASC Topic 310-30, Trustmark periodically re-estimates the expected cash flows to be collected over the life of the acquired impaired loans. If, based on current information and events, it is probable that Trustmark will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected

arising from changes in estimate after acquisition, the acquired loans are considered impaired. The decrease in the expected cash flows reduces the carrying value of the acquired impaired loans as well as the accretable yield and results in a charge-off through the allowance for loan losses, acquired loans or the establishment of an allowance for loan losses, acquired loans with a charge to income through the provision for loan losses, acquired loans. If, based on current information and events, it is probable that there is a significant increase in the cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, Trustmark will reduce any remaining allowance for loan losses, acquired loans established on the acquired impaired loans for the increase in the present value of cash flows expected to be collected. The increase in the expected cash flows for the acquired impaired loans over those originally estimated at acquisition increases the carrying value of the acquired impaired loans as well as the accretable yield. The increase in the accretable yield is recognized as interest income prospectively over the remaining life of the acquired impaired loans. The carrying value of acquired impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

Under FASB ASC Topic 310-30, acquired impaired loans are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans as long as the estimated cash

flows are received as expected. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income may be recognized on a cash basis or as a reduction of the principal amount outstanding.

Premises and Equipment, Net

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

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

Mortgage Servicing Rights (MSR)

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

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

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

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

Goodwill and Identifiable Intangible Assets

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

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

Other Real Estate

Other real estate includes assets that have been acquired in satisfaction of debt through foreclosure and is carried at the lower of cost or estimated fair value. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan losses. Other real estate is revalued on an annual basis or more often if market conditions necessitate. An other real estate specific reserve may be recorded through other real estate expense for declines in fair value subsequent to foreclosure based on recent appraisals or changes in market conditions. Subsequent to foreclosure, losses on the periodic revaluation of the property are charged against an existing other real estate specific reserve or as noninterest expense in other real estate expense if a reserve does not exist. Costs of operating and maintaining the properties as well as gains or losses on their disposition are also included in other real estate expense as incurred. Improvements made to properties are capitalized if the expenditures are expected to be recovered upon the sale of the properties.

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

Trustmark accounts for its investments in FHLB and Federal Reserve Bank of Atlanta stock in accordance with FASB ASC Topic 942-325, "Financial Services-Depository and Lending-Investments-Other." FHLB and Federal Reserve Bank stock are equity securities that do not have a readily determinable fair value because its ownership is restricted and it lacks a market. FHLB and Federal Reserve Bank stock are carried at cost and evaluated for impairment. Trustmark's investment in member bank stock is included in other assets in the accompanying consolidated balance sheets. At December 31, 2018 and 2017, Trustmark's investment in member bank stock totaled $32.2 million and $67.7 million, respectively. The carrying value of Trustmark's member bank stock gave rise to no other-than-temporary impairment for the years ended December 31, 2018, 2017 and 2016.

Revenue from Contracts with Customers

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 Segment

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.

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.

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

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 year ended December 31, 2018 resulted in net gains of $700 thousand compared to $2.1 million for the year ended December 31, 2017 and $7.0 million for the year ended December 31, 2016.

In general, purchases of Trustmark's other real estate property are not financed by Trustmark. Financing the purchase of other real estate is evaluated based upon the same lending policies and procedures as all other types of loans. Under FASB ASC Topic 610-20, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets," when Trustmark finances the sale of its other real estate to a buyer, Trustmark is required to assess whether the buyer is committed to perform their obligations under the contract and whether collectability 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.

Wealth Management Segment

Trust Management

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.

Assets under administration held by Trustmark in a fiduciary or agency capacity for customers are not included in Trustmark's consolidated balance sheets.

Investment Services

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 Segment

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 commission 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. 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

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 installment insurance contracts consists of a set commission amount, which is not subject to clawback provisions. An estimated commission amount is entered in the agency management 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.

Personal Insurance

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

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

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.

Derivative Financial Instruments

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

Derivatives Designated as Hedging Instruments

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

Derivatives Not Designated as Hedging Instruments

As part of Trustmark's risk management strategy in the mortgage banking area, derivative instruments such as forward sales contracts are utilized. Trustmark's obligations under forward contracts consist of commitments to deliver mortgage loans, originated and/or purchased, in the secondary market at a future date. Changes in the fair value of these derivative instruments are recorded as noninterest income in mortgage banking, net and are offset by changes in the fair value of LHFS. See Note 1 – Significant Accounting Policies, "Loans Held for Sale (LHFS)" for information regarding the fair value option election.

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

Trustmark utilizes a portfolio of exchange-traded derivative instruments, such as Treasury note futures contracts and option contracts, to achieve a fair value return that economically hedges changes in the fair value of the MSR attributable to interest rates. These transactions are considered freestanding derivatives that do not otherwise qualify for hedge accounting. These exchange-traded

derivative instruments are accounted for at fair value with changes in the fair value recorded as noninterest income in mortgage banking, net and are offset by changes in the fair value of the MSR. The MSR fair value represents the present value of future cash flows, which among other things includes decay and the effect of changes in interest rates. Ineffectiveness of hedging the MSR fair value is measured by comparing the change in the fair value of the hedge instruments to the change in the fair value of the MSR asset attributable to changes in interest rates and other market driven changes in valuation inputs and assumptions.

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

Income Taxes

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

Stock-Based Compensation

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

Statements of Cash Flows

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

	Years Ended December 31,		
	2018	2017	2016
Income taxes paid	$12,435	$7,371	$24,836
Interest paid on deposits and borrowings	66,358	41,472	24,312
Noncash transfers from loans to other real estate (1)	12,115	8,760	23,965
Transfer of long-term FHLB advances to short-term	—	250,038	500,009
Assets acquired in business combination	—	196,265	—
Liabilities assumed in business combination	—	184,949	—

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

Per Share Data

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

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

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

	Years Ended December 31,		
	2018	2017	2016
Basic shares	67,505	67,727	67,620
Dilutive shares	154	160	164
Diluted shares	67,659	67,887	67,784

Weighted-average antidilutive stock awards were excluded in determining diluted EPS. The following table reflects weighted-average antidilutive stock awards for the periods presented (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Weighted-average antidilutive stock awards	1	74	2

Fair Value Measurements

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

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety is classified is based on the lowest level input that is significant to the fair value measurement in its entirety. Trustmark's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer.

Accounting Policies Recently Adopted

Except for the changes detailed below, Trustmark has consistently applied its accounting policies to all periods presented in the accompanying consolidated financial statements.

ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." Issued in February 2018, ASU 2018-02 seeks to help entities reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 (Tax Reform Act), enacted on December 22, 2017. ASU 2018-02 was issued in response to concerns regarding current guidance in GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income, rather than net income, and as a result the stranded tax effects would not reflect the appropriate tax rate. The amendments of ASU 2018-02 allow an entity to make a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects, which is the difference between the historical corporate income tax rate of 35.0% and the newly enacted corporate income tax rate of 21.0%. ASU 2018-02 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2018; however, public business entities are allowed to early adopt the amendments of ASU 2018-02 in any interim period for which the financial statements have not yet been issued. The amendments of ASU 2018-02 may be applied either at the beginning of the period (annual or interim) of adoption or retrospectively to each of the period(s) in which the effect of the change in the U.S. federal

corporate tax rate in the Tax Reform Act is recognized. As a result of the re-measurement of Trustmark's deferred tax assets following the enactment of the Tax Reform Act, accumulated other comprehensive loss included $8.5 million of stranded tax effects at December 31, 2017. Trustmark early adopted the amendments of 2018-02 during the first quarter of 2018 and elected to reclassify the stranded tax effects from accumulated other comprehensive loss to retained earnings at the beginning of the period of adoption. The reclassification of the stranded tax effects resulted in an $8.5 million increase in accumulated other comprehensive loss, net of tax and a corresponding increase in retained earnings.

ASU 2017-07, "Compensation-Retirement Benefits (Topic 715)-Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Issued in March 2017, ASU 2017-07 is designed to improve guidance related to the presentation of defined benefit costs in the income statement. In particular, ASU No. 2017-07 requires that an employer report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, then that line item or items must be appropriately described. However, if a separate line item or items are not used, then the line item(s) used in the income statement to present the other components of net benefit cost must be disclosed. Additionally, ASU 2017-07 allows only the service cost component to be eligible for capitalization, when applicable. The amendments of ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement and prospectively, on or after the adoption date, for capitalization of the service cost component in assets. Management evaluated the amendments of this ASU and determined that the amendments of ASU 2017-07 would require a reclassification of the net periodic benefit cost, with the exception of the service cost component, from salaries and employee benefits to other expense on the consolidated statements of income for each period presented, which is not considered material to Trustmark's consolidated financial statements. Trustmark adopted the amendments of ASU 2017-07 effective January 1, 2018. Trustmark elected the available practical expedient which allows Trustmark to use the amounts disclosed in its pension and other postretirement benefits footnote for the prior comparative periods for applying the retrospective presentation requirements. As a result of the adoption of ASU 2017-07, Trustmark reclassified $3.5 million, $5.7 million and $10.4 million of the net periodic benefit cost from salaries and employee benefits to other expense in the accompanying consolidated statements of income for the years ended December 31, 2018, 2017 and 2016, respectively.

ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of the FASB Accounting Standards Codification)." Issued in January 2016, ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The amendments of ASU 2016-01 include: (i) requiring equity investments, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income; (ii) requiring a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) requiring the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requiring an entity that has elected the fair value option to measure the fair value of a liability to present separately in other comprehensive income the portion of the change in the fair value resulting from a change in the instrument-specific credit risk; (vi) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The amendments of ASU 2016-01 became effective for Trustmark on January 1, 2018. Trustmark's investments in member bank stock, which are equity securities that do not have readily determinable fair values, are not within the scope of ASU 2016-01. See Note 1 – Significant Accounting Policies, "Federal Home Loan Bank (FHLB) and Federal Reserve Bank of Atlanta Stock" for information regarding

Trustmark's investment in member bank stock. Adoption of the amendments of ASU 2016-01 resulted in changes to Trustmark's fair value related disclosures, specifically amendments (iii) which eliminated the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet and (iv) which required the use of the exit price notion when measuring the fair value of the LHFI portfolio. Changes to Trustmark's fair value related disclosures are presented in Note 19 – Fair Value of this report. The adoption of ASU 2016-01 did not have a material impact on Trustmark's consolidated financial statements.

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Issued in May 2014, ASU 2014-09 will add FASB ASC Topic 606, "Revenue from Contracts with Customers," and will supersede revenue recognition requirements in FASB ASC Topic 605, "Revenue Recognition," as well as certain cost guidance in FASB ASC Topic 605-35, "Revenue Recognition – Construction-Type and Production-Type Contracts." ASU 2014-09 provides a framework for revenue recognition that replaces the existing industry and transaction specific requirements under the existing standards. ASU 2014-09 requires an entity to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount in which the entity expects to be entitled. Depending on whether certain criteria are met, revenue should be recognized either over time, in a manner that depicts the entity's performance, or at

a point in time, when control of the goods or services are transferred to the customer. ASU 2014-09 provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In addition, the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in ASU 2014-09. The amendments of ASU 2014-09 may be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If the transition method of application is elected, the entity should also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The amendments of ASU 2014-09 and all subsequently issued ASUs, which provided additional guidance and clarifications to various aspects of FASB ASC Topic 606, became effective for Trustmark on January 1, 2018. Trustmark elected to adopt these amendments using the modified retrospective method (cumulative effect method) of application for only those contracts not completed as of the date of adoption; therefore, comparative information has not been adjusted and continues to be reported under legacy GAAP. Trustmark's contracts with customers are primarily for a term of one year or less and substantially all of Trustmark's contracts were completed as of January 1, 2018. Management determined that approximately 23% of the revenues earned by Trustmark are within the scope of ASU 2014-09, and, for most of the revenue streams within the scope of ASU 2014-09, the amendments do not change the timing or amount of revenue recognized. No cumulative adjustment was recorded as a result of the adoption of ASU 2014-09. Disclosures required by the amendments of ASU 2014-09 are presented in Note 13 – Revenue from Contracts with Customers of this report. The adoption of ASU 2014-09 did not have a material impact on Trustmark's consolidated financial statements. Changes in Trustmark's accounting policies as a result of adopting the amendments of ASU 2014-09 included the following:

Bank Card and Other Fees

Previously, Trustmark recognized interchange fee revenue from point of sale transactions in full as noninterest income in bank card and other fees and recorded a separate expense as noninterest expense in other expense for the amounts payable to the payment network. Under the guidelines of FASB ASC Topic 606, Trustmark records the amounts payable to the payment network for point of sale transactions as noninterest income in bank card and other fees and, therefore, reports revenue from interchange fee contracts net of the consideration for which Trustmark is not entitled.

Insurance Commissions

Commissions subject to clawback provisions are considered variable consideration subject to variable constraint under FASB ASC Topic 606. Previously, FBBI recognized revenue from insurance contracts in full when the commissions were invoiced or received and recorded a negative commission amount at the time the commissions were paid back to the insurance provider as a result of a policy cancellation or lapse. No allowance for doubtful accounts was previously recorded related to the commission revenue subject to clawback provisions. As a result of the adoption of FASB ASC Topic 606, 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 estimated returned commissions amount (contra-revenue) and a corresponding liability is recorded in other liabilities. 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.

Wealth Management

A portion of the revenue received by Trustmark from investment services and trust tax contracts are payable to third-parties for related services rendered and represents consideration for which Trustmark is not entitled under FASB ASC Topic 606. Previously, Trustmark recognized revenue from investment services and trust tax contracts in full as noninterest income in wealth management and recorded a separate expense for services rendered related to these contracts as noninterest expense in other expense. Under FASB ASC Topic 606, Trustmark records expenses for services rendered related to these contracts as noninterest income in wealth management (contra-revenue) and, as a result, revenue from wealth management contracts is reported net of the amount for which Trustmark is not entitled.

Pending Accounting Pronouncements

ASU 2018-15, “Intangibles-Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging

Issues Task Force)." Issued in August 2018, ASU 2018-15 aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments of ASU 2018-15 require an entity to follow the guidance in FASB ASC Subtopic 350-40, "Intangibles-Goodwill and Other-Internal-Use Software," in order to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments of ASU 2018-15 also require an entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement (i.e. the noncancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the entity is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the entity is reasonably certain not to exercise the option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor). ASU 2018-15 also requires an entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement, and to classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. ASU 2018-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Trustmark does not currently have any material amount of implementation costs related to hosting arrangements that are service contracts and is not expected to have a material impact to Trustmark's consolidated financial statements; however, Management will continue to evaluate the impact of this ASU on future hosting arrangements as well as Trustmark's consolidated financial statements through its effective date.

ASU 2018-14, "Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans." Issued in August 2018, ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14 remove certain disclosure requirements that are no longer considered cost beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. The amendments of ASU 2018-14 become effective for fiscal years beginning after December 15, 2020. Trustmark plans to adopt these amendments during the first quarter of 2021. Management is currently assessing all the potential impacts of the amendments in ASU 2018-14 on Trustmark's consolidated financial statements; however, the adoption of ASU 2018-14 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." Issued in August 2018, the amendments in this ASU remove disclosure requirements in FASB ASC Topic 820 related to (1) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; (3) the valuation processes for Level 3 fair value measurements; and (4) for non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU also modifies disclosure requirements such that (1) in place of a rollforward for Level 3 fair value measurements, a non-public entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date that restrictions from redemption might lapse, only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) it is clear that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additionally, this ASU adds disclosure requirements for public entities about (1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments of ASU 2018-13 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Trustmark plans to adopt ASU 2018-13 during the first quarter of 2020. Management is currently assessing all the potential impacts of the amendments in ASU 2018-13 on Trustmark's consolidated financial statements; however, the adoption of ASU

2018-13 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Issued in August 2017, ASU 2017-12 aims to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in ASU 2017-12 aim to better align an entity's risk management activities and financial reporting for hedging relationships by expanding and refining hedge accounting for both non-financial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in ASU 2017-12 (i) permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk; (ii) change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk; (iii) continue to allow an entity to exclude option premiums and forward points from the assessment of hedge effectiveness; and (iv) permit an entity to exclude the portion of the change in fair value of a currency swap that is attributable to a cross-country basis spread from the assessment of hedge effectiveness. The amendments of ASU 2017-12 also include targeted improvements intended to simplify the application of hedge accounting. All transition requirements and elections must be applied to all hedging relationships existing at the date of adoption. The amendments of ASU 2017-12 became effective for Trustmark on January 1, 2019. ASU 2017-12 did not have

any impact to Trustmark's existing hedging relationships at adoption; therefore, the adoption of ASU 2017-12 did not have a material impact on Trustmark's consolidated financial statements.

ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." Issued in March 2017, ASU 2017-08 amends the amortization period for certain purchased callable debt securities held at a premium. In particular, the amendments in ASU 2017-08 require the premium to be amortized to the earliest call date. The amendments do not, however, require an accounting change for securities held at a discount; instead, the discount continues to be amortized to maturity. Notably, the amendments in this ASU more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. Securities within the scope of ASU 2017-08 are purchased debt securities that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. The amendments of ASU 2017-08 became effective for Trustmark on January 1, 2019. As of December 31, 2018, Trustmark's total unamortized premium for purchased debt securities within the scope of ASU 2017-08 was immaterial. The adoption of ASU 2017-08 did not have to have a material impact on Trustmark's consolidated financial statements.

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Issued in January 2017, ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective prospectively for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. Based on Trustmark's annual goodwill impairment test performed as of October 1, 2018, the fair value of its reporting units exceeded the carrying value and, therefore, the related goodwill was not impaired. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated financial statements through its effective date; however, the adoption of ASU 2017-04 is not expected to have a material impact on Trustmark's consolidated financial statements.

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Issued in June 2016, ASU 2016-13 will add FASB ASC Topic 326, "Financial Instruments-Credit Losses" and finalizes amendments to FASB ASC Subtopic 825-15, "Financial Instruments-Credit Losses." The amendments of ASU 2016-13 are intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendments of ASU 2016-13 eliminate the probable initial recognition threshold and, in turn, reflect an entity's current estimate of all expected credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a write-down. The amendments of ASU 2016-13 are effective for interim and annual periods beginning after December 15, 2019. Earlier application is permitted for interim and annual periods beginning after December 15, 2018. Trustmark has established a Current Expected Credit Loss (CECL) Steering Committee, a CECL Solution Development Working Group and a CECL Working Group which include the appropriate members of Management to evaluate the impact this ASU will have on Trustmark's financial position,

results of operations and financial statement disclosures and determine the most appropriate method of implementing the amendments in this ASU as well as any resources needed to implement the amendments. Trustmark intends to adopt the amendments of ASU 2016-13 during the first quarter of 2020. Trustmark selected a third-party vendor to provide allowance for loan loss software as well as advisory services in developing a new methodology that would be compliant with amendments of ASU 2016-13, and is working with the approved third-party vendor to develop the CECL model and evaluate the impact to Trustmark. Trustmark is working with the third-party vendor on using various modeling techniques to develop its methodology. Trustmark is on schedule to fully comply with all CECL requirements within its internally established timeframe for implementation. Management will continue to evaluate the impact this ASU will have on Trustmark's consolidated financial statements through its effective date.

ASU 2016-02, "Leases (Topic 842)." Issued in February 2016, ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not

significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. At adoption, Trustmark will recognize a lease asset and a corresponding lease liability on its consolidated balance sheet for its total lease obligation measured on a discounted basis. In July 2018, the FASB issued ASU 2018-10, “Codification Improvements to Topic 842: Leases,” which provides corrections or improvements to a number of areas within FASB ASC Topic 842 and has the same transition guidance and effective date as ASU 2016-02. The FASB also issued ASU 2018-11, “Leases (Topic 842)-Targeted Improvements”, in July 2018, which provides entities with an additional and optional transition method to adopt the new lease standard and, for lessors only, a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component. The amendments in ASU 2018-11 allow an entity the option to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption as opposed to at the beginning of the earliest period presented in the financial statements. The amendments of ASU 2018-11 have the same effective date as ASU 2016-02. In December 2018, the FASB issued ASU 2018-20, “Leases (Topic 842): Narrow-Scope Improvements for Lessors,” which provides targeted improvements and clarification to guidance with FASB ASC Topic 842 specific to lessors. The amendments of ASU 2018-20 have the same effective date as ASU 2016-02 and may be applied either retrospectively or prospectively to all new and existing leases. Trustmark has an immaterial amount of leases in which it is the lessor. Based on Management’s evaluation, Trustmark does not expect the amendments of ASU 2016-02 to have any material impact to these leases or the related income. Trustmark obtained a third-party software application which will provide lease contract maintenance and lease accounting under the guidelines of FASB ASC Topic 842. All existing lease contracts have been loaded into the software application and reviewed by Management. The amendments of ASU 2016-02 and subsequently issued ASUs, which provided additional guidance and clarifications to various aspects of FASB ASC Topic 842, became effective for Trustmark on January 1, 2019. Management is currently finalizing the evaluation of Trustmark’s lease obligations as potential lease assets and liabilities as defined by ASU 2016-02; however, the adoption of ASU 2016-02 is not expected to have a material impact on Trustmark’s consolidated financial statements. Based on Management’s preliminary analysis of Trustmark’s existing lease contracts, it is estimated that the adoption of ASU 2016-02 will result in a less than 0.5% increase in assets and liabilities on Trustmark’s consolidated balance sheets. Disclosures required by the amendments of ASU 2016-02 will be presented beginning with the Quarterly Report on Form 10-Q for the period ending March 31, 2019.

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 FASB 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 identified 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. See Note 6 – 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 19 – Fair Value for more information on Trustmark's classification of financial instruments based on valuation inputs within the fair value hierarchy.

Note 3 – Cash and Due from Banks

Trustmark is required to maintain average reserve balances with the Federal Reserve Bank of Atlanta based on a percentage of deposits. The average amounts of those reserves for the years ended December 31, 2018 and 2017 were $112.4 million and $100.8 million, respectively.

Note 4 – Securities Available for Sale and Held to Maturity

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

	Securities Available for Sale				Securities Held to Maturity			
December 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	$31,235	$ 109	$ (1,009)	$30,335	$3,736	$ 78	$ —	$3,814
Obligations of states and political subdivisions	50,503	200	(27)	50,676	35,783	255	(139)	35,899
Mortgage-backed securities								
Residential mortgage pass-through securities								
Guaranteed by GNMA	69,648	147	(2,301)	67,494	12,090	45	(257)	11,878
Issued by FNMA and FHLMC	685,520	127	(18,963)	666,684	115,133	43	(2,887)	112,289
Other residential mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	830,129	67	(18,595)	811,601	578,827	189	(15,441)	563,575
Commercial mortgage-backed securities								
Issued or guaranteed by FNMA, FHLMC or GNMA	187,494	191	(2,662)	185,023	164,074	299	(2,095)	162,278
Total	$1,854,529	$ 841	$ (43,557)	$1,811,813	$909,643	$ 909	$ (20,819)	$889,733

December 31, 2017

U.S. Government agency obligations	$45,763	$322	$(800)	$45,285	$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								
Issued or guaranteed by FNMA, FHLMC or GNMA	218,252	426	(1,543)	217,135	180,315	1,102	(1,437)	179,980
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 December 31, 2018 and 2017, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying balance sheet totaled approximately $15.7 million ($11.8 million, net of tax) and $19.5 million ($12.0 million, net of tax), respectively.

Temporarily Impaired Securities

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

	Less than 12 Months		12 Months or More		Total	
December 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	$—	$ —	$25,045	$ (1,009)	$25,045	$ (1,009)
Obligations of states and political subdivisions	4,954	(9)	12,802	(157)	17,756	(166)
Mortgage-backed securities						
Residential mortgage pass-through securities						
Guaranteed by GNMA	9,163	(54)	61,141	(2,504)	70,304	(2,558)
Issued by FNMA and FHLMC	31,931	(172)	731,749	(21,678)	763,680	(21,850)
Other residential mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	46,643	(110)	1,296,221	(33,926)	1,342,864	(34,036)
Commercial mortgage-backed securities						
Issued or guaranteed by FNMA, FHLMC or GNMA	5,497	(37)	272,789	(4,720)	278,286	(4,757)
Total	$98,188	$ (382)	$2,399,747	$ (63,994)	$2,497,935	$ (64,376)
December 31, 2017						
U.S. Government agency obligations	$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 GNMA	755,013	(7,668)	534,955	(16,591)	1,289,968	(24,259)

Commercial mortgage-backed securities