Trustmark Insurance Company
Year Ended December 31, 2017

Management's Discussion & Analysis (MD&A) presents management's view of the financial position and results of operations of Trustmark Insurance Company (the Company) for the years ended December 31, 2017, and December 31, 2016. The MD&A should be read in conjunction with the Company's statutory annual statement.

History

Originally incorporated in 1913 under the statutes of Illinois as a fraternal association titled Brotherhood of All Railway Employees, in 1917 the name changed to Benefit Association of Railway Employees. It became a mutual insurance company in 1923 and was renamed Benefit Trust Life Insurance Company in 1963. The name of the Company changed to Trustmark Insurance Company (Mutual) in 1994, reflecting a merger with Bankers Mutual Life Insurance Company, Illinois. Following the formation of a mutual holding company in January 2000, the name changed to Trustmark Insurance Company.

Parent, Subsidiaries, and Affiliates

Trustmark Group, Inc. owns Trustmark Insurance Group, Inc. and Trustco Holdings, Inc. Trustmark Insurance Company, Trustmark Life Insurance Company, and Trustmark Life Insurance Company of New York are subsidiaries of Trustmark Insurance Group, Inc. Until early 2003, Trustmark Life Insurance Company had been a wholly owned subsidiary of the Company. However, Trustmark Life Insurance Company spun off in the first quarter of 2003, through an extraordinary dividend by its then parent company. The entities are now sister companies. The spinoff better aligned the organizational structure with Trustmark Group's developing business strategy. This is discussed further in "Operations and Products". Trustco is a holding company responsible for Star Marketing and Administration, Inc., MultiBenefit Services, Inc., CoreSource, Inc., Trustmark Voluntary Benefit Solutions, Inc., and Health Fitness Corporation.

Operations and Products

The Company holds licenses in all states (New York, A&H only) and the District of Columbia.

The Company markets worksite products through its Trustmark Voluntary Benefit Solutions (TVBS) division. TVBS is a flexible, service-driven organization committed to providing benefits, including life, disability, and critical illness coverage, designed specifically for the voluntary market. The division distributes products through national and regional brokers and professional benefit communication firms. In 2017 and 2016, revenue was $338.1 million and $314.9 million, respectively.

As healthcare costs continue to rise, so does the demand for voluntary benefits. Employers are increasingly concerned about their ability to offer a complete benefit package to employees. Employees are looking to supplement their core benefits with voluntary coverage that meets their individual needs.

Trustmark was founded on principles of worksite marketing. With over 100 years of experience in voluntary benefits, the division is well positioned to provide the resources employers and employees need to make knowledgeable decisions that enhance their benefit plans and provide critical financial protection.

Professional enrollment, comprehensive client management, and consolidated Internet-based billing are cornerstones of its "best-in-class" service operation. In addition, Voluntary Benefit Solutions has fostered long-standing relationships with leading benefit communication firms. Through these relationships and the advantages of the electronic enrollment system, employers experience smooth, expert benefit enrollment.

Voluntary Benefit Solutions offers a billing process flexible and advanced enough to handle the unique requirements of the payroll-deducted products that include the following:

- The ability to combine multiple products from multiple carriers in one or more payroll deduction slots.
- Proactive billing setup calls prior to each enrollment to ensure smooth integration.
- Internet capability for payment processing and inquiry information.
- List billing and reconciliation based on the employer's actual payroll calendar and data.

The division's product portfolio has the following innovative solutions:

- Universal Life with Living Benefits couples life insurance with long-term care benefits.
- EZ Value enables policyholders to increase their benefits automatically each year.
- Universal Life Events provides higher death benefits during working years and higher Living Benefits when the need for long-term care increases.
- Trustmark was the first voluntary carrier to offer Critical Illness insurance, which is now one of the fastest growing product lines in the industry. Critical Life Events offers a lifetime of benefits to critical illness policyholders with support for the healthy person, caregiver, and health-conscious individual while continuing to support the severely ill.

The Company also continues to manage closed blocks of individual major medical, annuity, and disability income policies.

Reinsurance

Life Insurance Ceded
The Company 100% cedes its individual life risks previously administered by its Freeport operation to National Guardian Life Insurance Company on a coinsurance basis; the associated reserves amounted to $84.1 million and $86.6 million in 2017 and 2016, respectively. The Company also cedes ordinary and group life business automatically and facultatively to various unaffiliated carriers authorized in Illinois.

As of December 31, 2017 and 2016, the maximum retention for individual and group life insurance is $300,000. Waiver of premium and other rider benefits generally cede on the same basis as the associated life benefits.

As of July 1, 2011, the Company purchased an excess of loss contract that cedes benefits related to life insurance policies that exceed $125,000. Effective July 1, 2015, the Catastrophic Life Reinsurance coverage previously provided by Special Pooled Risk Administrators was replaced by 50% coverage by RGA Reinsurance and 50% by Sirius International.

Accident and Health Ceded
The Company cedes significant portions of its individual disability income risks, previously acquired from other writers, to unaffiliated reinsurers; the corresponding accident and health reserve credit taken at December 31, 2017 and 2016, was $45.9 million and $52.7 million, respectively.

Until September 23, 2010, the maximum retention for individual and group insurance was $5.0 million lifetime benefit. With the adoption of Patient Protection and Affordable Care Act (PPACA), most of our major medical maximums were eliminated, providing unlimited lifetime benefits. Effective January 1, 2011, reinsurance was obtained so our maximum retention was $3.0 million ($1.0 million for group stop loss and $3.0 million for individual medical). The maximum retention of $3.0 million reduced to $2.0 million in 2013 and further reduced to $1.0 million in 2015. The maximum amount retained for individual and group disability insurance is $3,000 monthly indemnity. The Company cedes its excess of losses over retention for these risks to various reinsurers.

The Company signed a reinsurance treaty pursuant to which it will cede its risk, on a 100% co-insurance basis, on certain accident, disability and critical illness policies sold through credit unions to Combined Life Insurance Company of New York, a New York based company or Combined Insurance Company of America, an Illinois based company. The cession was effective on January 1, 2015, and involved approximately 56,800 policies with contract and premium reserves of approximately $11.8 million. The Company has estimated the gain from the sale on this transaction to be $14.4 million. The reserve credit taken was $20.5 million in December 31, 2017 and 2016.

Accident and Health Assumed
At December 31, 2017 and 2016, the Company held accident and health risks assumed from several unaffiliated companies on a coinsurance basis covering disability income, long-term care, long-term disability, major medical, and medical expense coverage.

Workers Compensation -- WEB Business
In 1997, the Company entered into an administrative agreement with WEB Management, LLC, a Connecticut licensed reinsurance intermediary, allowing WEB to write reinsurance as managing general underwriter on behalf of the Company. The reinsurance risks consist primarily of workers' compensation carve-out business and a mixture of personal accident business including travel accident, accidental death

and dismemberment, and catastrophe covers. In 1999, the Company discontinued entering into any new agreements and thereafter began legally challenging aspects of them where appropriate. At December 31, 2017, Trustmark had no disputes in litigation or arbitration. The WEB reinsurance business is discussed in detail in the Notes to Financial Statements, #14F.

Outside Audits

Deloitte and Touche, LLP will conduct the 2017 annual independent audit of the Company. The Illinois Department of Insurance completed a regulatory financial examination of the Company in October 2017. The exam covered the period January 1, 2012 through December 31, 2016. There were no reportable findings.

Ratings

Assigned by Independent Analysts as of March 2018:

A.M. Best Company	A- (Excellent)

A.M. Best Co. affirmed the financial strength rating (FSR) of A- (Excellent) and issuer credit ratings (ICR) of "a-" of Trustmark Insurance Company and Trustmark Life Insurance Company (Trustmark Life) (both of Lake Forest, IL). Concurrently, A.M. Best has affirmed the ICR of "bbb-" of the holding company, Trustmark Group, Inc. (Trustmark). The outlook for all ratings is stable.

The rating affirmations reflect the Company's balance sheet strength, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

In addition, the rating agency assigned the same A- rating to Trustmark's affiliate, Trustmark Life Insurance Company of New York.

Financial Position

Assets

Bond holdings increased $34.3 million to $1.1 billion in 2017. Investment activity increased the portfolio by $36.4 million. In addition, the statement value of the portfolio was reduced by $2.0 million annual net amortization of discount and premium and $0.1 million of impairments.

The liquidity and overall credit quality of the bond portfolio remained high, with 67.2% of the bond portfolio held in investment grade publicly traded bonds and short-term investments (70.5% in 2016). In addition, 15.5% of the long-term bond portfolio held investments in freely tradable SEC Rule 144A privately placed securities (12.8% in 2016). As of year-end 2017 and 2016, 8.9% of the long-term bond portfolio held securities rated NAIC 3 to 6.

Common stock holdings increased by $19.6 million during 2017 to $149.8 million. Investment activity resulted in a net increase of $3.1 million. Unrealized gains increased by $16.8 million and impairments during 2016 were $0.3 million.

Cash and short-term investments was $69.9 million versus $70.6 million at year end 2016 due to normal fluctuations in investment activity.

Mortgage Loans increased $15.7 million to $58.8 million in 2016 ($43.1 million in 2016). During 2017, the Company acquired approximately $23.7 million, received $8.0 million of repayments, and had $4.0 million in outstanding commitments to purchase new commercial mortgage loan participations. At year-end, the Company held nine restructured loans with a total book value of $1.7 million. There was one insignificant impairment taken in 2017 and no impairments taken in 2016. There were no mortgages in the process of foreclosure in 2017 and one mortgage loan in the process of foreclosure in 2016.

The Company has made commitments of up to $110.0 million to participate in Real Estate Debt and Equity Funds. Funding will occur over a multi-year period. The unfunded commitment as of December 31, 2017 is $51.7 million ($54.0 million in 2016). Presentation of these funds are on Schedule BA, Joint Venture and Partnership Interests – Mortgage Loans or Real Estate – Unaffiliated.

Other invested assets increased by $19.2 million to $85.6 million ($66.4 million in 2016). The portfolio was increased by purchases of real estate and mortgage equity funds of $21.5 million, and an increase in unrealized gains of $7.6 million. Sales and distributions reduced the portfolio by $10.1 million, of which $0.3 million were attributable to sales of REO LLC. There were no impairments in 2017 or 2016.

Line 18.1, Current federal income tax recoverable, decreased by $2.5 million from 2017.

No other material changes occurred in the non-invested asset categories.

Liabilities

The majority of the Company's liabilities consist of reserves for accident and health and life policies, fund deposits, and contract claims. The computation of these liabilities is in accordance with commonly accepted actuarial standards. Refer to the Company's Statement of Actuarial Opinion included in its statutory Annual Statement.

Line 1, Aggregate reserves for life contracts, increased from $700.2 million to $749.5 million, primarily due to a $52.5 million increase in universal life policy reserves in our Voluntary division due to business growth and the aging of policies.

Line 2, Aggregate reserve for accident and health contracts, decreased from $244.0 million to $241.3 million. This decrease is primarily due to increased settlement activity in the disability and long-term-care closed blocks of business ($10.9 million). This is offset by an increase in active life reserves on our worksite critical illness and accident products ($8.5 million).

Line 4.2, A&H contract claims increased from $47.9 million to $48.9 million. This $1.0 million increase is driven by an increase in our worksite accident products.

Line 15.2, Net deferred tax liability increased $6.1 million driven by increased unrealized investment gains.

There were no material changes between years in any of the other liability categories.

Capital and Surplus Account

The Company does not generally enter into material commitments for capital expenditures. With the ability to draw on uncommitted cash flow and to liquidate investments, the Company believes it has the capacity to fund all capital requirements.

The 2017 change in unrealized capital gains, net of deferred tax, resulted in a gain of $16.0 million ($8.3 million gain in 2016). The primary driver of the 2017 unrealized capital gain was an upturn of the U.S. equity markets during 2017. The Company experienced unrealized gains on equities and other invested assets.

In 2017 the change in the Asset Valuation Reserve was $3.5 million versus $3.1 million in 2016. The $0.4 million increase is due to an increasing asset base, realized and unrealized gains, net of tax that is more than offset by a reduction to the maximum reserve.

Total capital and surplus (including asset valuation reserves) was $364.0 million and $331.5 million as of December 31, 2017 and 2016, respectively, up 9.8%.

The Company considers its surplus position to be adequate by industry standards and by its own risk analysis to absorb reasonably adverse experience.

Results of Operations

Income for 2017 after dividends to policyholders and before federal income taxes was $21.2 million, an increase of $0.4 million from $20.8 million in 2016.

Premium income for 2017 increased by $21.3 million to $343.3 million, primarily due to continued growth in our Voluntary Benefits universal life business of $17 million.

Line 6, Commission and expense allowances on reinsurance ceded decreased by $3.4 million, to $5.4 million, primarily due to continued decrease of the Combined Insurance Company reinsurance agreement discussed in the Reinsurance section above.

Line 15, Surrender benefits and withdrawals for life contracts increased by $3.8 million to $26.0 million due to the continued growth and aging in our business.

Line 19, Increase in aggregate reserves for life and accident and health contracts, increased from $40.8 million in 2016 to $46.5 million in 2017. The increase is due to the growth and aging in-force of the Voluntary Benefit business.

Line 21, Commission on premiums increased $1.4 million to $77.0 million due to the continued growth in our Voluntary line of business.

After deducting capital gain taxes, and realized gains transferred to the Interest Maintenance Reserve, net realized investment gains remained flat in 2017 at $3.5 million.

Significant Trends

The Company is subject to risk-based capital (RBC) requirements developed by the NAIC and adopted by the State of Illinois for statutory accounting. RBC is a measure that quantifies the appropriate amount of capital an insurance company needs to support business operations taking into consideration the relative size and risk profile of the organization. The risk profile takes into account asset quality, underwriting, mortality, morbidity, interest rates, provider agreements, and other business factors. The minimum requirements for compliance are determined by the ratio of the regulatory total adjusted capital to the authorized control level RBC, both as defined by the NAIC. Corrective action steps are required for companies that have a ratio less than 200%. As of December 31, 2017, the Company’s RBC ratio was 1,233% versus 1,196% the previous year.

Liquidity, Asset/Liability Matching and Capital Resources

Cash flows from core operations in 2018 are expected to be positive, with revenue and interest income exceeding benefit payments, expenses, and taxes:

Revenue	$ 368.0 million
Interest Income	53.0
Benefit Payments	(147.0)
Expenses	(192.0)
Taxes	(11.0)
	$ 71.0 million

Changes in reserves are expected to be $59.0 million resulting in net operating gain of $12.0 million.

Short-term liquidity as of December 31, 2017 was provided by the following:

Cash on hand in bank accounts	$ 1.8 million
Institutional money market funds/other short-term	68.1
U.S. Government and Agency securities available for same day settlement	68.8
Other securities maturing within one year	39.6
Total short-term liquidity	$ 178.3 million

Long-term liquidity is addressed in part by the composition of the investment portfolio, and by the investment policy itself, which emphasizes liquidity. Public and highly marketable securities are $1.0 billion, 85% of the $1.2 billion fixed income portfolio.

Trustmark Insurance Company is a member of the Federal Home Loan Bank of Chicago (FHLBC) and through this membership it has access to long-term and short-term advances. As of year-end Trustmark Insurance Company had $49.5 million of collateralized loans with the FHLBC, and has the capacity for additional borrowing, if necessary.

Participation in High Yield Financings, Highly Leveraged Transactions or Non-Investment Grade Loans and Investment

The Investment Policy, approved by the Board of Directors that governs Trustmark Insurance Company, limits the purchase of below investment grade securities to 12% of admitted assets. As of December 31, 2017, Trustmark Insurance Company held 6% of admitted assets in below investment grade securities.