

ANNUAL REPORT 2011



Navy 
★ Mutual



OUR MISSION

Providing our Members, with certainty and promptness, life insurance at as near the actual net cost as possible.

Securing for our Members, without cost, the federal benefits to which they may be legally entitled.

Educating military members and their families on matters of financial security.

OUR VISION

To be the first choice provider of exceptional life insurance products and services for Sea Service members and their families.



Serving the Sea Services

Navy
Marine Corps
Coast Guard
Public Health Service
NOAA Commissioned Officer Corps

Open to:

Active Duty
Retired
Reserves
Honorably Discharged Veterans

A REPORT FROM THE CHAIRMAN AND THE PRESIDENT

Despite the lingering effects of the recession, 2011 was another excellent year for Navy Mutual. Your Association continued to prosper and provide caring, personal service to you and your loved ones, as this Annual Report will show you. Navy Mutual continues to thrive based on four fundamental principles that guide us year-to-year:

Value. Since 1879, Navy Mutual has offered its Members high quality life insurance at the lowest possible cost. In 2011, we continued to grow the Association's assets through conservative investing that generated a net investment yield of about 6.3%, well in excess of insurance industry averages. Navy Mutual's sales maintained steady, month over month growth in 2011, as our Members continued to recognize the excellent value that Navy Mutual insurance provides them.

Integrity. Navy Mutual is proud to offer life insurance free of war, aviation or terrorism clauses, or restrictions based on travel or duty status. We insure our Members wherever they go, supporting the Sea Services in times of peace or war. In 2011, we paid over 1500 beneficiaries whose loved ones had passed away. You can count on Navy Mutual to keep its promises to you and your loved ones. When you need us, Navy Mutual is there.

Trust. Our Members and beneficiaries continued to express levels of satisfaction with Navy Mutual far beyond what commercial insurance companies received. Over 97% of our Members stayed with Navy Mutual in 2011 despite the slow economy, more proof that they trust us to care for their families in good times and bad.

Stability. Once again, the Fitch rating agency has awarded Navy Mutual an A+ rating with a stable outlook after a rigorous examination. Navy Mutual's continuing financial success and stability mean that your Association can be counted upon to be there for you and your loved ones for many years to come.

We are committed to serving you. The key to Navy Mutual's continuing success is the dedication of its people, the volunteer Board and professional staff who work together to protect our Members and their families. Recently, Navy Mutual was honored to receive Quantum Workplace's 2012 Employee Voice Award, joining organizations in the financial services, general contracting, tourism, education, non-profit and healthcare industries that have the highest levels of employee engagement. In this Annual Report you'll meet some of our employees, whose exceptional dedication means that Navy Mutual can be counted upon to serve you and your loved ones with the utmost personal care. We appreciate the trust you continue to place in us.



Jeffrey W. Oster
Chairman of the Board



Bruce B. Engelhardt
President

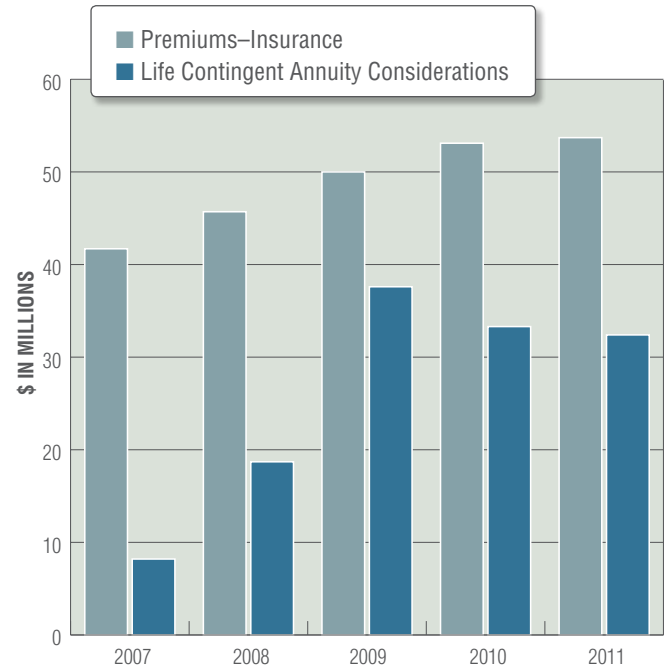
2011:
ANOTHER GREAT YEAR!

Insurance in Force



Insurance in force, beginning of year	21,509,071,227
Insurance sold in 2011	2,338,064,001
Death benefits incurred	89,510,922
Terminations and other changes	829,728,562
Insurance in force, end of year	\$22,927,895,744

Direct Premiums



Total direct premiums, end of year **\$86,009,353**

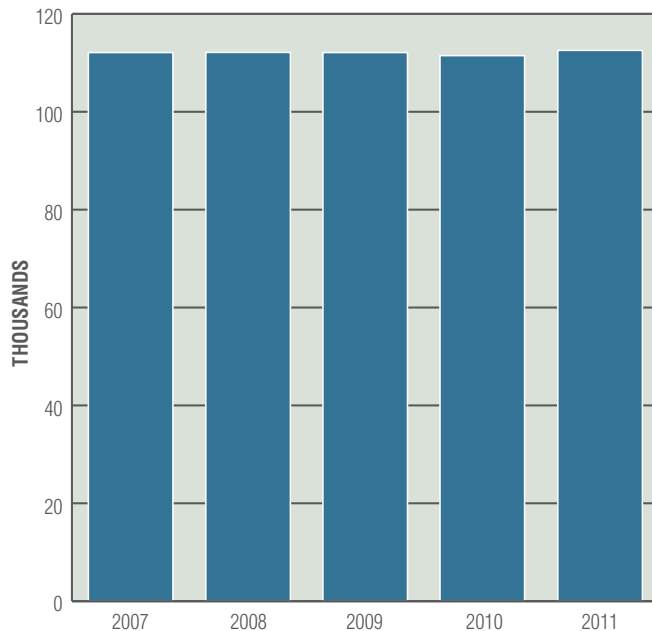
INSURING THOSE WHO SERVE

Members continued to recognize the value of Navy Mutual's life insurance plans.

- Plans sold in 2011 increased **23%** over 2010.
- **53%** of the growth achieved in 2011 was from new Members, enhancing the long-term stability of the Association.
- New plans issued to both current and new Members totaled more than **\$2.3 billion** in life insurance.
- We provided beneficiaries **\$89.5 million** of support in death benefits.



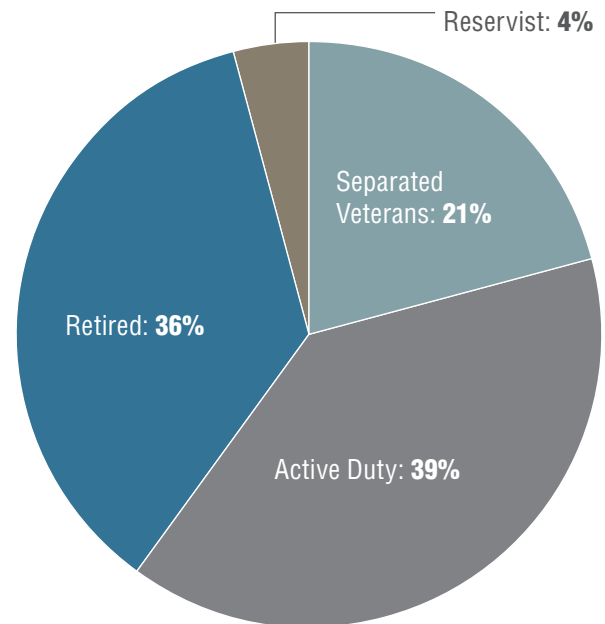
Military and Family Members Lives Insured



Total lives insured, beginning of year 2011 111,904

Total lives insured, end of year 2011 112,594

Member Profile



MEMBER RETENTION RATE: 97%

Results of the 2011 Membership Survey show the positive relationship between Members and Staff.

- Our staff meets or exceeds Members' expectations on every performance dimension measured.
- Members agree that they are satisfied or extremely satisfied with Navy Mutual and the service that Navy Mutual provides.
- Members believe that their Navy Mutual sales representative recommends only policies that meet their needs.
- Members report that issues are resolved quickly and easily, with follow-up completed as promised.



“Navy Mutual is one of the finest insurance companies I have ever had the honor of using. No one else even comes close. Thank you and please continue the great work you are doing.”

—Thomas J. Neill, USCG

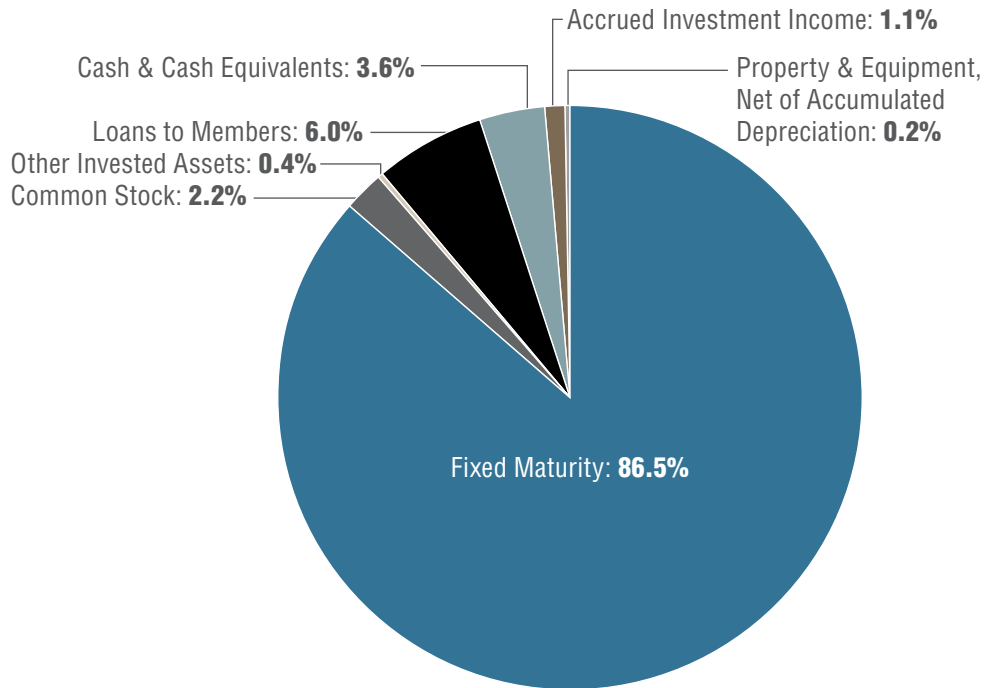
“NMAA has resisted the all too common business trait of making all the financial gain they can and has instead focused on service to its members while being a good financial steward.”

—Chuck Hiles, USN (Retired)

“You can TRUST Navy Mutual! That is hard to find in this day and age! The growth and increase in coverage on my insurance over the years has been a long range benefit to my initial purchase. My total life insurance coverage has increased tremendously over the years without me adding any more money.”

—Arthur Carter, USN (Retired)

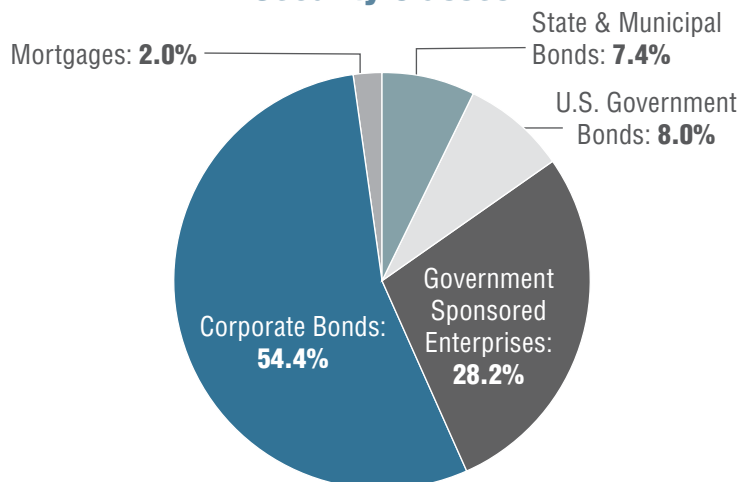
2011 Assets



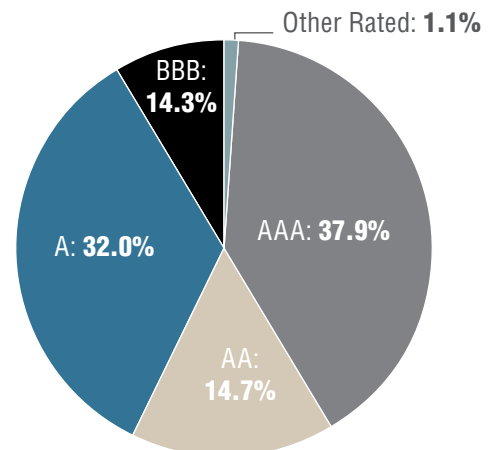
**NET
INVESTMENT
YIELD:
6.3%**

Fixed Income Portfolio

Security Classes



Ratings



Just as was mentioned last year, Navy Mutual's strong and consistent showing across all topics in the survey makes it hard to recommend anything but staying the course. Navy Mutual has succeeded in achieving a level of customer experience that is the envy of any insurance company. What is more, it has developed a strong franchise among its Members that bodes well for retention and future sales.

—The LOMA Organization, a Leader in Life Insurance Industry Analysis, Atlanta, August 2011



NAVY MUTUAL AID ASSOCIATION'S RATING AT A+, OUTLOOK IS STABLE.

Navy Mutual's rating reflects the Association's strong capital levels, high quality, liquid investment portfolio, and conservative financial profile with predictable cash flows.

The Stable Outlook is driven by Fitch's expectations for strong capital, consistent operating earnings driven by low cost operations, strong levels of investment income, and moderate top-line growth.

—Fitch Ratings, Chicago, 15 September, 2011

Summary of Financial Position

	December 31,	
	2011	2010
Assets		
Bonds	\$2,241,682,864	\$2,162,485,512
Equity securities	59,810,321	115,586,810
Mortgage loans	45,414,980	15,417,703
Cash and short-term investments	95,156,959	43,502,907
Member loans	157,869,678	153,640,193
Other invested assets	9,239,624	4,686,261
Securities lending reinvested collateral assets	39,729,896	44,158,198
Total cash and invested assets	2,648,904,322	2,539,477,584
Other assets	32,420,884	32,381,848
Total assets	2,681,325,206	2,571,859,432
Liabilities		
Aggregate reserve for life contracts	2,162,673,753	2,078,222,233
Death benefits payable	25,898,924	19,603,129
Liability for deposit-type contracts	212,519,974	194,726,843
Other liabilities	19,268,309	17,498,305
Payable for securities lending	40,243,470	44,673,497
Total liabilities (excluding asset valuation reserve)	2,460,604,430	2,354,724,007
Asset valuation reserve (AVR)	21,383,630	25,810,001
Net assets	199,337,146	191,325,424
Total net assets and AVR	220,720,776	217,135,425
Total liabilities and net assets	\$2,681,325,206	\$2,571,859,432

Appointed Actuary Statement of Actuarial Opinion

The reserves and related items make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

Summary of Operations

	Years Ended December 31,	
	2011	2010
Revenue		
Premiums – insurance	\$53,651,691	\$53,144,782
Life contingent annuity considerations	32,357,812	33,318,139
Life contingent survivor income deposits	535,866	1,009,043
Net investment income	158,471,412	151,653,667
Other income	1,038,343	905,554
Total revenue	246,055,124	240,031,185
Benefits and Expenses		
Member benefits paid	125,751,982	102,871,713
Change in aggregate reserve for life contracts	101,006,111	115,817,818
General operating expenses	15,490,075	13,465,973
Total benefits and expenses	242,248,168	232,155,504
Net gain from operations before net realized capital gains	3,806,956	7,875,681
Net realized capital gains	12,535,299	(5,015,487)
Net gain from operations	\$16,342,255	\$2,860,194

Statutory Accounting

These summary financial statements are derived from the Association's audited financial statements, which are prepared in conformity with accounting practices used by insurance companies for regulatory reporting purposes. Such accounting practices, referred to as statutory accounting practices, are a comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP).

Audited Financial Statements

Johnson Lambert & Co. is Navy Mutual's independent accountant. Our audited financial statements are available by written request sent to: Navy Mutual Aid Association, Accounting Division, Henderson Hall, 29 Carpenter Road, Arlington, VA 22212.

NAVY MUTUAL RECEIVES AWARD FOR EXCELLENCE IN EMPLOYEE ENGAGEMENT



Employee
Voice
Award
2012

The **2012 Employee Voice Award** has been presented to Navy Mutual honoring the “Highest Level of Engagement” by Quantum Workplace – known for its *Best Places to Work* contest. The Employee Voice Award honorees are recognized for their success in collecting, analyzing, and taking action on employee feedback.

“We are very excited to recognize these organizations for their ongoing commitment to engagement. We like to celebrate these efforts in testimony of not only the success of the organization, but the partnership as a whole.” —Greg Harris, President of Quantum Workplace

Staff Highlights



Multi-lingual staff members

Members of the staff serving you include reservists, veterans, retirees, military spouses, and former dependants. Because we understand the challenges you face, we maintain a single focus on providing the peace of mind military families seek.

Language

Hello, Zdravstvuyte, Bonjour, Hola, Buon Giorno! Navy Mutual staff speak 13 different languages.

Education

30% of our staff have a professional designation and/or certification specific to the insurance industry, such as:

- CASL – Chartered Advisor for Senior Living
- ChFC – Chartered Financial Consultant
- CLU – Chartered Life Underwriter

to name only a few.

Dedication

Navy Mutual staff is surveyed annually and, without fail, the highest ranked component of their jobs is their

belief in the mission and vision of the Association.

Navy Mutual Employees Give Back

Individual staff members continue caring for our military families by going above-and-beyond in contributing to our Sea Service military community. Association-wide community service programs include:

- Adopting families for Christmas via Marine & Family Services
- Participating in the Marine Toys-for-Tots Foundation campaign
- Assisting our on-base Henderson Hall American Red Cross Blood Drive
- Providing Holiday gifts to Wounded Warrior's at Walter Reed National Military Medical Center in Bethesda



Elizabeth Deutsch 2011 Employee of the Year
Business Analyst, 3-year employee

I was born in Portsmouth, VA, but as the daughter of a Naval Officer, I called many of the states up and down the coasts my home.

One of the things I love about working here is the ability to contribute and be involved. We are challenged to do things on a daily basis that will have a positive impact for fellow employees and Members - there is always something new that can be accomplished or made better. You really feel like you can have an impact as an employee here, both immediate and long-term.



Anthony P. Glassford (Tony), SgtMaj, USMC, Ret, CLU, CASL, ChFC
Director of Beneficiary Services and Education, 8-year employee

I have spent my entire life serving one way or another. I grew up on a dairy farm in West Virginia. I served in the Marines as a truck driver first and as the years went by as a leader to the new crop coming into the Corps. Today, I am still serving through the assistance I provide our beneficiaries and other family members. Since I handle claims and beneficiary services, I have the honor of talking to beneficiaries and family members, explaining their options, handling the processing requirements and legal aspects of a claim.

At the end of the day, I feel rewarded and valued by our beneficiaries. They can make you feel good; it's definitely a two-way street.



Ray Clark
Underwriting
16-year employee
Retired Navy Corpsman

I enjoy my continuing military relationships and believe my own military experience helps me provide the services our military families deserve.



Mike Rau
Marketing
5-year employee
Reservist

Not only has Navy Mutual allowed me to live the American Dream, it has allowed me the opportunity to use my talents to promote a mission I believe in.



Leah Naar
New Business
4-month employee

My roommate is in Afganistan right now. After these few months working on the Marine Corps base, I think I understand what her life is like a little better.



Jan Poindexter
Claims and Benefits
35-year employee

It is a truly gratifying experience working here. I actually feel like I am helping someone each day. It's rewarding, like I am being paid back for something I did for someone.

A large American flag is being held up by a group of people on a field. The flag is the central focus, with its stars and stripes clearly visible. The people holding the flag are in the foreground and middle ground, some in military uniforms and others in civilian clothes. The background shows a grassy field and a clear sky.

Term Life Insurance

- Express Term 'Plus': Term life insurance that requires no medical exam.
- Flex Term: For those under 50 looking for maximum coverage at little cost.
- Level II 'Plus': For those 50 to 85 looking for a specific amount of protection at a level cost.

Permanent Life Insurance

- Permanent 'Plus': For those ready to move to lifelong protection plus cash growth.
- Generations: Lifelong insurance you can purchase for your children and grandchildren.

Deferred Annuities

- Flexible Premium: Save for retirement with flexible contribution amounts.
- Single Premium: To create a future income stream with a lump-sum payment now.

Immediate Annuities

- Single Premium: To start paying yourself now and for the rest of your life.



LTGEN Jeffrey W. Oster,
USMC, Ret. *Chairman*



CNOMC Randy L. Welch,
USN, Ret. *Vice-Chair*



RADM Bruce B. Engelhardt,
USN, Ret. *President*



Mr. Eric J. Candelori, CFM



CAPT James A. Carman,
USN, Ret.



RADM Isaiah C. Cole,
USN, Ret.



RADM Jan C. Gaudio,
USN, Ret.



CAPT Gary L. Labuda,
USN, Ret.



**RADM John M. (Michael)
Luecke, USN, Ret.**



RADM Kathleen L. Martin,
USN, Ret.



CAPT Michelle M. McAtee,
SC, USN, Ret.



CAPT Michael H. McDaniel,
USN



COL John C. Roots,
USMC, Ret.



CDR Erica B. Schwartz,
USCG/USPHS



RADM Patrick M. Stillman,
USCG, Ret.



**VADM Stanley R.
Szemborski, USN, Ret.**



RADM Frank Thorp IV,
USN, Ret.



MGEN Leo V. Williams, III,
USMC, Ret.



GEN Michael J. Williams,
USMC, Ret.



CAPT Mark A. Wilson,
USN, Ret.

Service Liaisons

RADM Denise S. Canton, RNDN, USPHS

SMMC Michael P. Barrett, USMC

RDML Dennis J. Moynihan, USN

MCPON Rick West, USN

Officers 2011

RADM Bruce B. Engelhardt, USN, Ret., CLU, President

Thomas A. Benton, Vice President, Technology & Systems

Lauren M. Bloom, Esq., General Counsel & Vice President, Beneficiary Services & Education

Michelle L. Brickwedde, Vice President, HR & Administration

Dave Fridell, FSA, MAAA, Chief Financial Officer

Allen M. McCray, CFA, CLU, Vice President, Investments

CDR John M. McVeigh, USN, Ret., Vice President, Membership

Michelle O. Smith, FLMI, ACS, Vice President, Operations



Navy 
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