



2016 ANNUAL REPORT

THE LAUNCH OF A NEW FLAGSHIP

Today, more than a century after Navy Mutual was formed, our core mission remains unchanged: to provide our members and their families with the peace of mind that comes from having quality, affordable life insurance. To protect those who protect this nation, and their loved ones, our services extend beyond prompt payment of claims to include education and support of beneficiaries in their times of need. But while our mission and service have remained constant, we realize that our members' needs change.

That's why we were so proud this year to put the final touches on a new life insurance product: Flagship Whole Life. Building on the success of our Permanent Plus series, we crafted a product that provides lifetime protection along with the potential to build strong cash value. We built in significant flexibility that allows members to access their available funds. And, like all our products, we are offering it without military exclusions, commissions, fine print or surrender fees.

We are pleased to report that the response from our most important audience, you the members, has been very positive. Rest assured that in the years ahead, our mission will remain steadfast, yet we will always seek to evolve in ways that better serve you.

OUR MISSION

Provide members with quality life insurance that is as close to the net cost as possible.

Secure government benefits to which our members are legally entitled.

Educate members and their families on matters of financial security.



A LETTER FROM THE CHAIRMAN AND THE PRESIDENT

Dear Members and Friends: We continue to honor our past and celebrate our future. Our financial scorecard remained strong, with Fitch Ratings again awarding us an A+ rating with a stable outlook, their highest rating for a company of our size and specialization. We maintained competitive premiums on our term life products, continued a high rate of return on permanent insurance and kept annuities competitive despite the ongoing low interest rate climate. We achieved an extraordinary 4.4% growth in life insurance premiums and modest growth in plans and new members. Our conservative investment portfolio continues to perform above industry average with a net investment yield of almost 6%, proof of the care that we devote to this bedrock asset.

The most significant change of 2016 was the launch of our new permanent insurance product, Flagship Whole Life. Feedback has been very positive. In addition to low cost permanent life insurance, this new product continues to provide for long-term care situations, offers increased flexibility for premium payments and allows the purchase of additional paid-up insurance to mitigate the effect of inflation on death benefits.

This year, we expanded our outreach to inform even more eligible men and women of the uniformed services that we are available to meet their life insurance and annuity needs. Remaining focused in our marketing efforts, we have begun sponsoring Lifetime Television's "Military Makeover" program, reaching a national audience. We partnered with Navy Federal to sponsor the Navy — Notre Dame football game in Jacksonville this year, and continue our affiliation with the NFL's Jacksonville Jaguars in that great Navy town.

Speaking of outreach, 2016 brought significant new directions in our education and veterans services missions. Our educators are experts for transitioning service members, and the demand for our services increases each year. Navy Mutual reached nearly 30,000 service members and families to help explain their benefits and enhance their basic financial awareness. We expect more commands to request our help as they prepare troops for the Defense Department's new Blended Retirement System in 2018. We are adding bench strength and training up our educators and Veterans Services Representatives.

2016 was indeed another very good year for Navy Mutual and its members. Our vision remains clear and our eyes are fixed on the horizon as we continue forward in support of those who serve.



Kathleen L. Martin
Chair of the Board of Directors



Bruce B. Engelhardt
President and Chief Executive Officer

FINDING NEW WAYS TO PUT MEMBERS FIRST

Navy Mutual's commitment to giving our members service that is "second to none" is a hallmark that separates us from other organizations. We continually strive to find ways to improve and enhance the member experience. Our goal for 2016 was to provide a fresh and appealing customer service telephone experience while keeping costs down by leveraging our existing hardware and systems.

In January 2016, we launched a new system with customized greetings and improved routing of incoming calls. Now, those reporting a death or needing to talk to one of our beneficiary representatives are immediately routed to the appropriate person. This is an essential element of our commitment to provide a prompt, effective, human response to our beneficiaries in their time of greatest need. This new system helps us maintain our excellent service record, with member satisfaction rates well above 90%.

We also received outside validation of our efforts when Navy Mutual was recently named as a finalist for the Professional Service Innovator of the Year award at the Greater Washington Innovation Awards™. The awards, presented by the Northern Virginia Chamber of Commerce, showcase leadership, innovation and creativity in a wide variety of industries. The recognition of our commitment to serving those who serve by colleagues in the community was greatly appreciated.



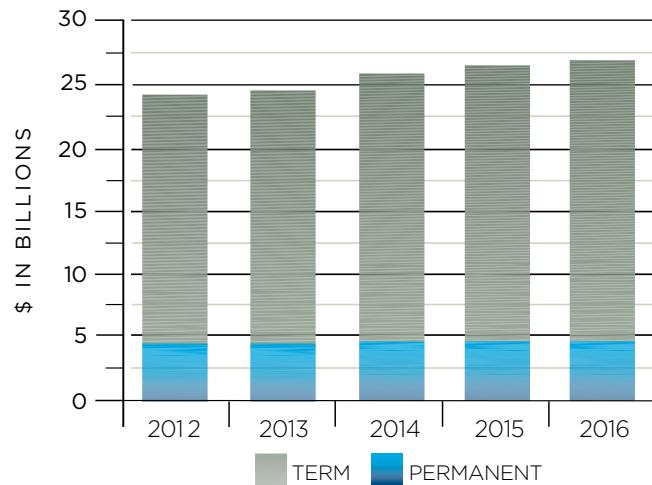
AN A+ RATING, 13 YEARS RUNNING

For 13 consecutive years, Navy Mutual has earned a Fitch Insurer Financial Strength (IFS) rating of A+, with a Stable Rating Outlook.

The rating and outlook “reflect the association’s very strong capitalization, modest profitability, high-quality investment portfolio and unique market niche. The ratings also consider the company’s interest-sensitive product profile along with its narrow focus and relatively small scale.” – *Fitch Ratings, August 2, 2016*

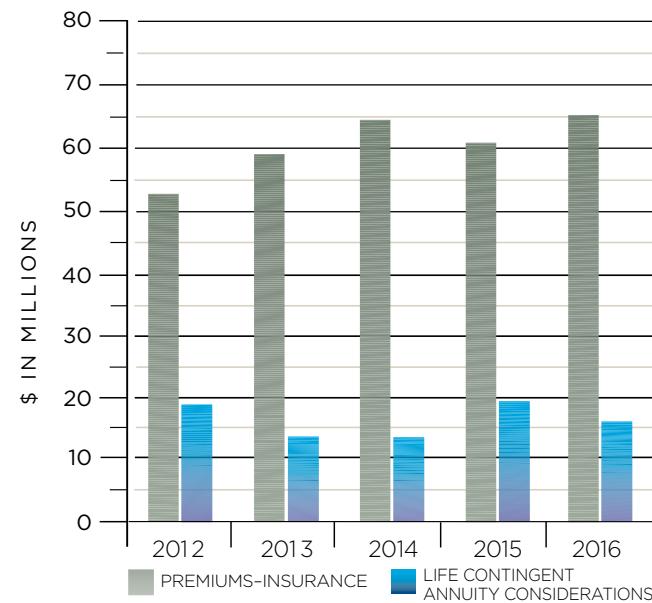


INSURANCE IN FORCE



Insurance in force, beginning of year: \$25,846,607,872
Insurance in force, end of year: \$26,697,955,328

DIRECT PREMIUMS



Total direct premiums, end of year: \$80,566,725

IN THE WORDS OF OUR MEMBERS

“Do not change! You guys are the only entity left that I feel truly cares about the men and women you serve above profit margins and growth goals. Like a good wingman ... you are always there when I need you and you always have my back.”

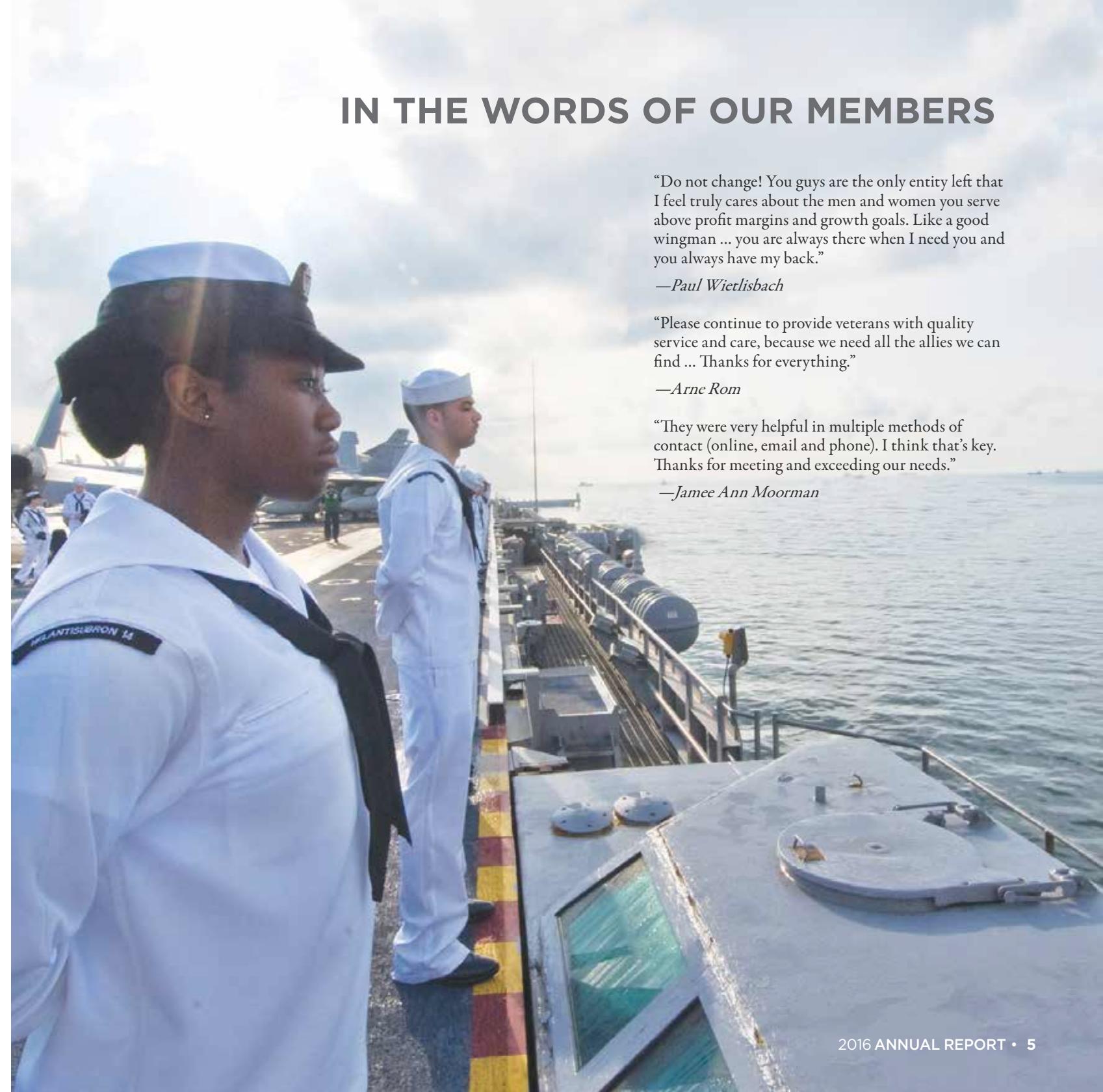
—*Paul Wietlisbach*

“Please continue to provide veterans with quality service and care, because we need all the allies we can find ... Thanks for everything.”

—*Arne Rom*

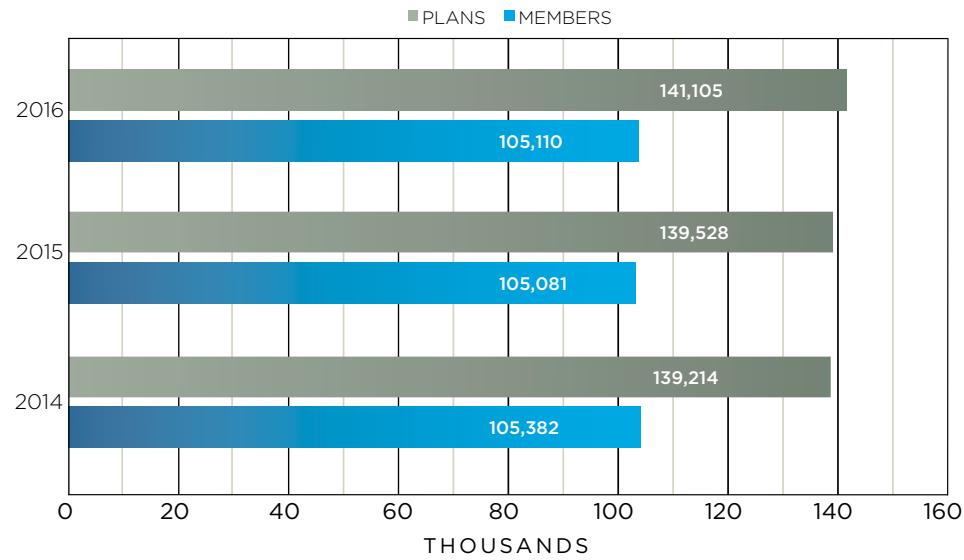
“They were very helpful in multiple methods of contact (online, email and phone). I think that’s key. Thanks for meeting and exceeding our needs.”

—*Jamee Ann Moorman*



97.8% MEMBER RETENTION

TOTAL PLANS AND MEMBERS



97.8%



LOMA MEMBER SATISFACTION SURVEY

OVERALL, I AM SATISFIED WITH NAVY MUTUAL



■ STRONGLY AGREE ■ AGREE

AVERAGE RATING

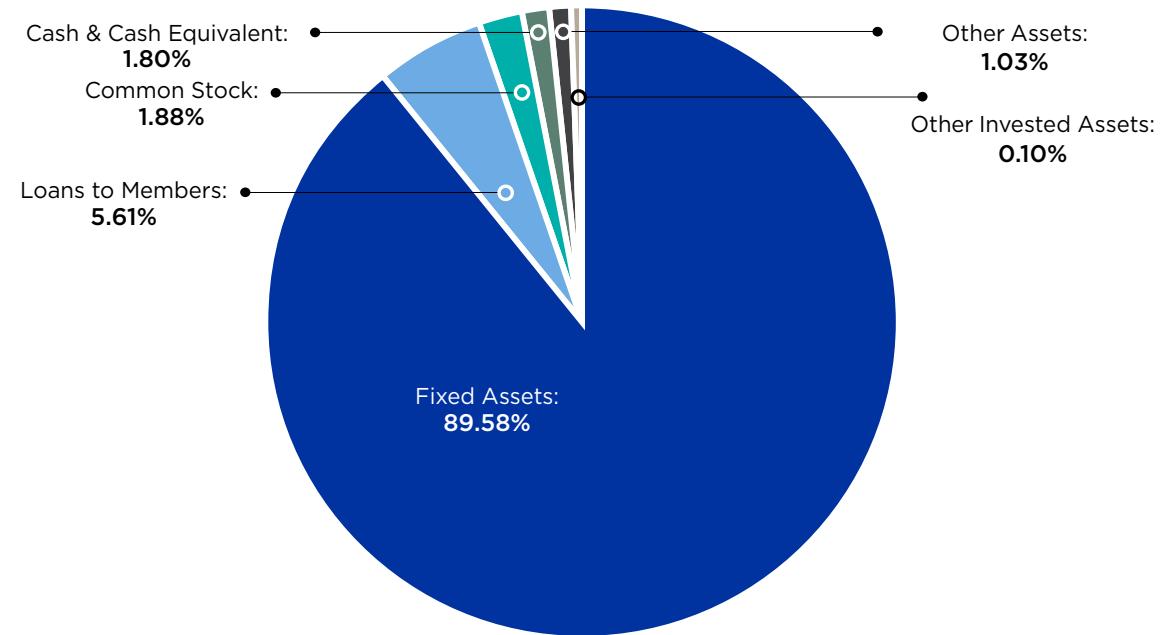
2016	2015	2014	2013	2012
4.59	4.59	4.57	4.52	4.55

Rating is based on 0-5 scale

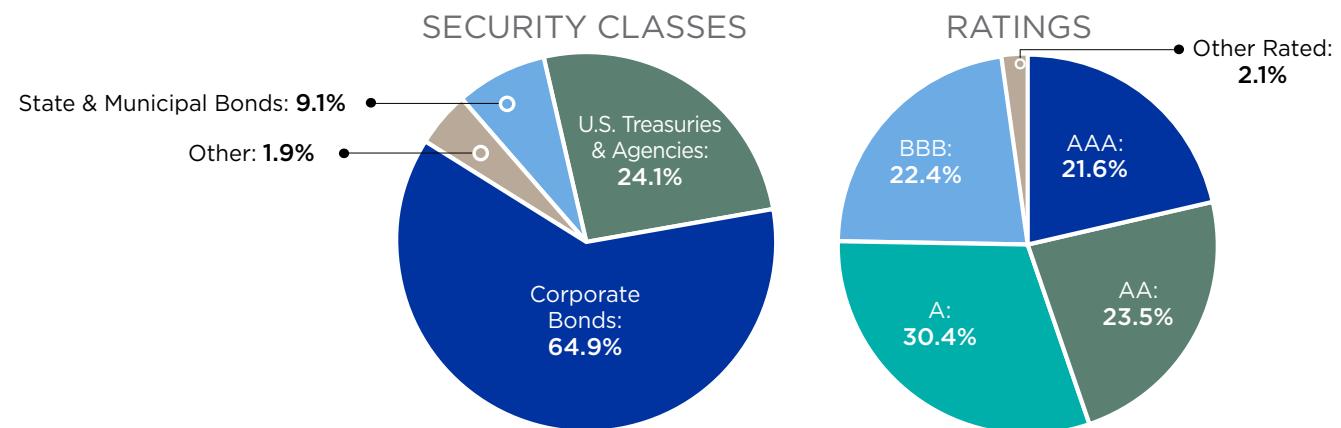
“As in past surveys, results of the 2016 Navy Mutual Policyholder Satisfaction study indicate very high levels of appreciation for the company. The various measures of customer satisfaction included in the survey all receive extremely high ratings that in many cases are close to the 90% mark. It is not surprising, therefore, that Navy Mutual customers are very loyal to the company.”

— The LOMA Organization, a leader in insurance industry analysis, Atlanta, October 2016

2016 ASSETS



FIXED INCOME PORTFOLIO



NET INVESTMENT YIELD: 5.90% **5.90%**



SUMMARY OF FINANCIAL POSITION

	Years Ended December 31st	
	2016	2015
ASSETS		
Bonds	\$2,690,790,280	\$2,606,662,028
Equity securities	56,505,625	64,002,036
Cash and short-term investments	54,151,258	50,597,621
Member loans	168,585,637	167,176,760
Other invested assets	2,905,291	6,384,472
Total cash and invested assets	2,972,938,091	2,894,822,917
Other assets	31,014,013	30,791,277
Total assets	3,003,952,104	2,925,614,194
LIABILITIES		
Aggregate reserve for life contracts	2,526,855,579	2,465,027,234
Death benefits payable	30,737,300	26,144,340
Liability for deposit-type contracts	119,147,160	125,206,154
Other liabilities	25,727,744	26,242,673
Total liabilities (excluding asset valuation reserve)	2,702,467,783	2,642,620,401
Asset valuation reserve (AVR)	19,063,715	17,491,192
Net assets	282,420,606	265,502,601
Total net assets and AVR	301,484,321	282,993,793
Total liabilities and net assets	\$3,003,952,104	\$2,925,614,194

SUMMARY OF OPERATIONS

	Years Ended December 31st	
	2016	2015
REVENUE		
Premiums – insurance	\$64,681,741	\$61,951,878
Reinsurance	(3,313,365)	(1,988,094)
Life contingent annuity considerations	13,374,988	18,767,063
Life contingent survivor income deposits	1,641,292	2,220,439
Net investment income	169,835,933	170,948,673
Other income	1,211,980	1,227,741
Total revenue	247,432,569	253,127,700
BENEFITS AND EXPENSES		
Member benefits paid	135,303,799	138,919,464
Change in aggregate reserve for life contracts	60,632,410	65,354,244
General operating expenses	36,377,343	33,567,347
Total benefits and expenses	232,313,552	237,841,055
Net gain from operations before net realized capital gains	15,119,017	15,286,645
Net realized capital gains	1,558,406	23,432,200
Net gain from operations	\$16,677,423	\$38,718,845

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 for accounting other than accounting principles generally accepted in the United States (GAAP).

Audited Financial Statements

Johnson Lambert & Co. is Navy Mutual's independent auditor. 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.

EMPLOYEE OF THE YEAR

IRIS BAKER, NEW BUSINESS CASE MANAGER

At Navy Mutual, our employees are humbled by the responsibility of helping service members and their families, often in times of great need. Each year, we honor an employee whose service to members demonstrates our commitment to excellence in all that we do.

Iris Baker has superbly served Navy Mutual members for more than 7 years. As a New Business Case Manager, Iris helps make the process of joining the Navy Mutual family an easy one, and she does so with the diligence, style and grace that underscores our commitment to those who defend our nation every day. Iris is pictured here with family and friends at a Naval Academy football game where she was recognized for her great service.

Congratulations, Iris, and thank you for all you do!



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INSURING THOSE WHO SERVE

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All photos courtesy of the Department of Defense