

2012

ANNUAL REPORT

Staying the Course

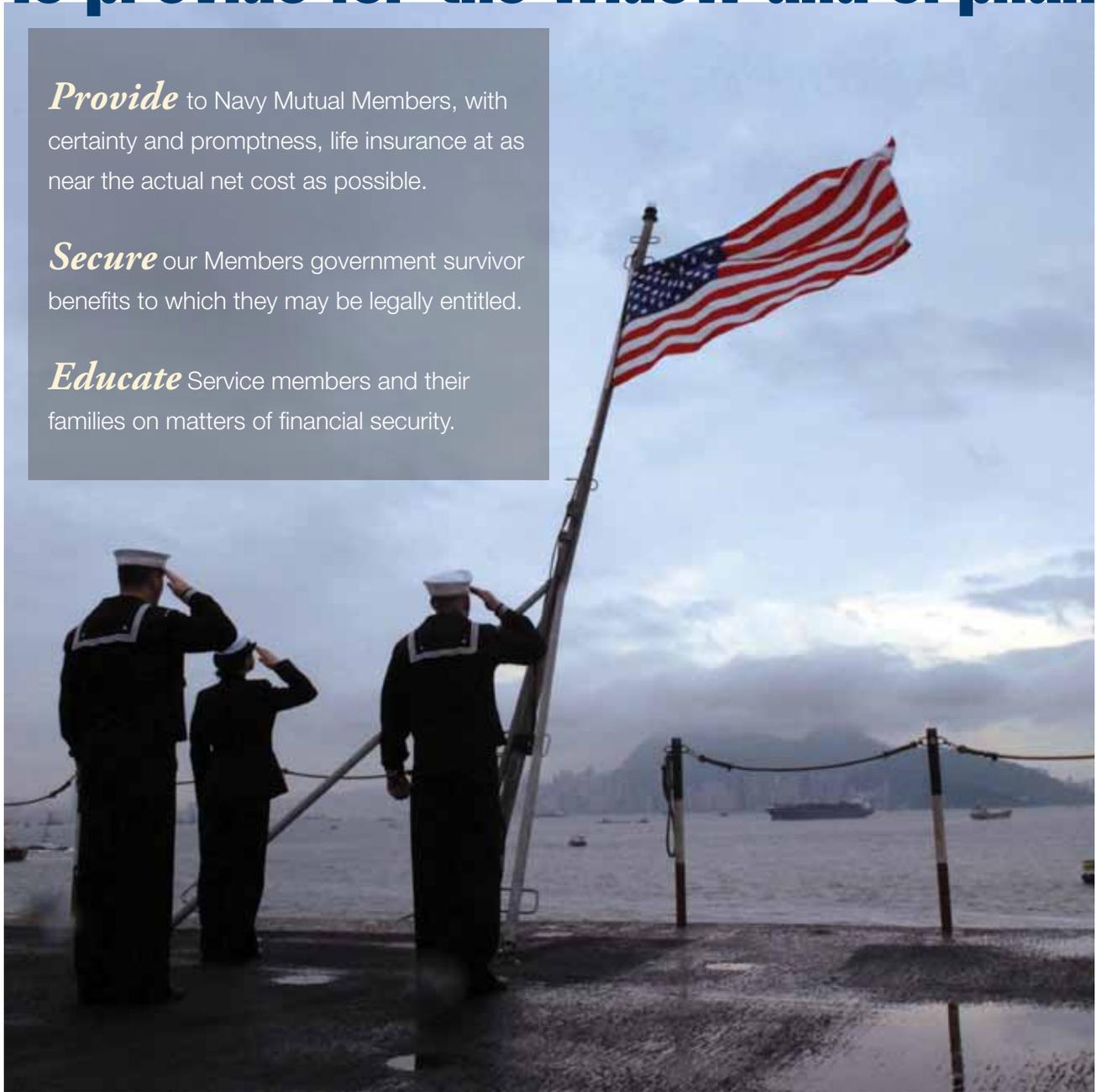
Navy 
★ Mutual

“To provide for the widow and orphan”

Provide to Navy Mutual Members, with certainty and promptness, life insurance at as near the actual net cost as possible.

Secure our Members government survivor benefits to which they may be legally entitled.

Educate Service members and their families on matters of financial security.



Serving

Those Who Serve.

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

We are pleased to report that Navy Mutual stayed the course in 2012, continuing to overcome the challenges presented by the lagging global economy. Navy Mutual grew steadily and continued to provide outstanding services to our members. We are proud to have stayed true to our four core operating principles:

Stability. Throughout its history, Navy Mutual has maintained a level of financial stability on which you can rely. Our low overhead, strong reserves and secure investments permit Navy Mutual to serve our long-standing members and future members from a position of certainty. In 2012, we insured almost 6,000 new members and their family members and generated almost \$23 million in net gains from our daily operations. The Fitch Rating agency again renewed our A+ rating and stable outlook, an expression of renewed confidence in our long-term stability. Thanks to our measured growth and financial success, Navy Mutual can promise to be there for you and you loved ones for generations to come.

Value. Navy Mutual continued to offer high quality life insurance coverage at affordable prices, meeting the needs of the military families we serve. As the federal government began trimming expenditures due to budget spending constraints, Navy Mutual maintained its comprehensive line of product offerings, keeping costs low while providing the hands-on, personalized services that you deserve and expect.

Integrity. You can be proud of your Association. Navy Mutual is managed with care and resolve that few commercial companies can match. Our steady service to you is part of the integrity we have built upon, since 1879. We know you trust Navy Mutual as you continue to honor us with outstanding customer satisfaction ratings.

Trust. As a Navy Mutual member, you can trust us to keep our promises to your loved ones. During 2012, Navy Mutual paid over \$76 million in claims to more than 1300 beneficiaries. You, our Members, continue to place your families' well-being and financial protection in our hands. The Board of Directors and professional staff of Navy Mutual take your trust in us to heart, and seek to earn it each day by our personal dedication to you our Members.

It is, as always, our honor to serve you.



Jeffrey W. Oster
Chairman of the Board



Bruce B. Engelhardt
President



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



CNOCM Randy 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.



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, Ret.



COL John C. Roots,
USMC, Ret.



CAPT 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.



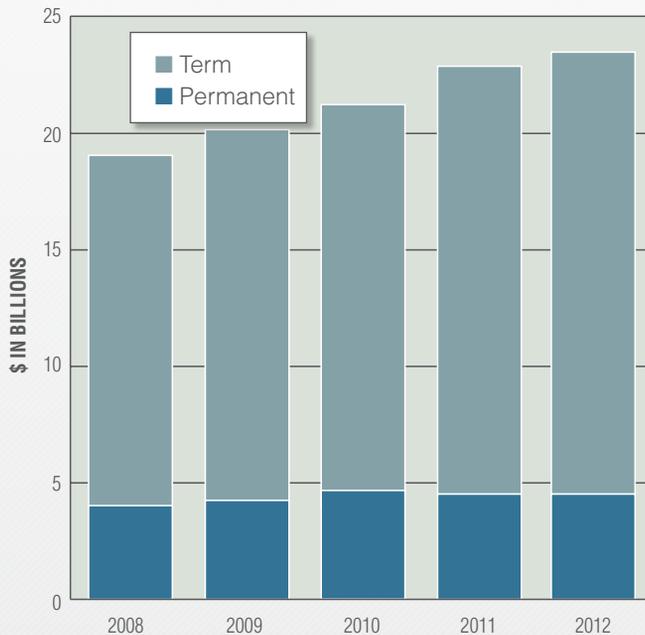
CAPT Mark A. Wilson,
USN, Ret.

Officers 2012

RADM Bruce B. Engelhardt, USN, Ret., *CLU, President*
Lauren M. Bloom, Esq., *General Counsel & Vice President, Government Affairs*
David Bragg, *Vice President, Information Technology*
Michelle L. Brickwedde, *Vice President, HR & Administration,
Beneficiary Services & Education*
Dave Fridell, *FSA, MAAA, Chief Financial Officer*
Sangeeta Jacob, *Vice President, Business Process Reengineering*
Allen M. McCray, *CFA, CLU, Vice President, Investments*
CDR John M. McVeigh, *USN, Ret., Vice President, Membership*

2012 Another Great Year!

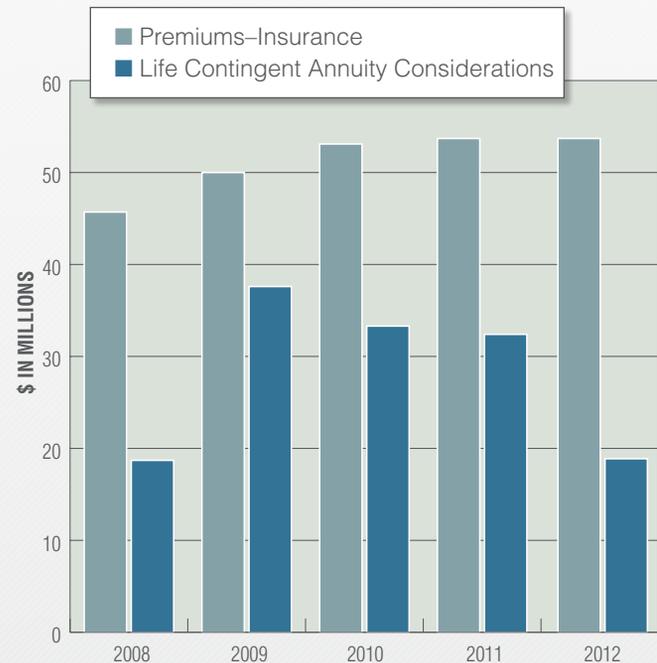
Insurance in Force



Insurance in force, beginning of year \$22,927,895,744

Insurance in force, end of year \$23,329,284,096

Direct Premiums



Total direct premiums, end of year \$72,335,834

*Navy Mutual's Insurer Financial Strength Rating at 'A+'.
The Rating Outlook Is Stable.*

The Stable Outlook reflects the association's strong capital levels, high-quality and liquid investment portfolio, conservative financial profile, and moderate top-line growth.

Fitch views as additional strengths Navy Mutual's conservative reserving, excellent persistency, and consistently low expense ratios. —*Fitch Ratings, Chicago, 02 October 2012*



“Thank you for being so unobtrusive and compassionate at a very difficult time for our family. My father would have approved of and appreciated your help.” —Navy Mutual Member

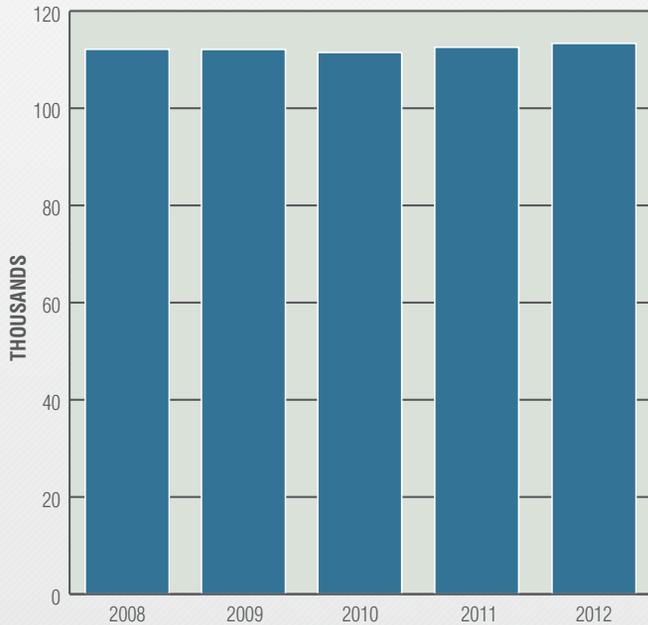
“I want to thank Navy Mutual Aid Association for their understanding and help. Over the years, my husband said to me many times, ‘What is the first thing you do when I die?’ and I’d say, ‘You tell me to call Navy Mutual Aid’. And that is about all I was able to do.”

—Mary Ryan



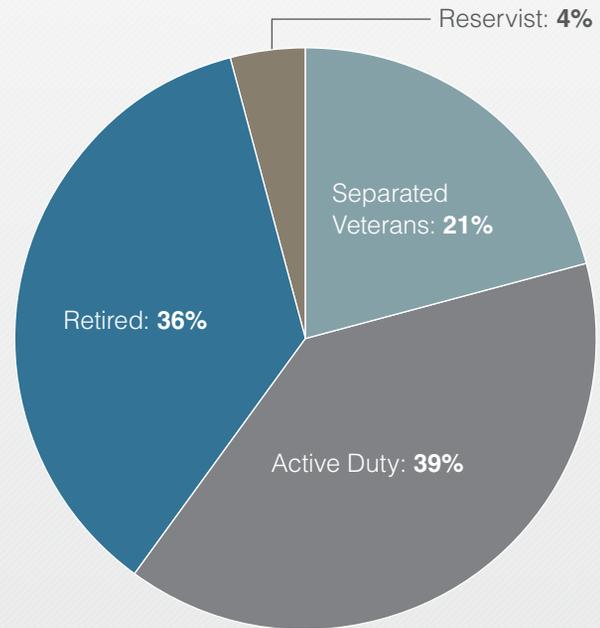
“Just as was mentioned last year, Navy Mutual’s strong and consistent showing across all topics in the survey makes it hard to recommend anything but staying the course. Navy Mutual has succeeded in achieving a level of customer experience that is the envy of any insurance company. What is more, it has 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, June 2012*

Military and Family Members Lives Insured



Total lives insured, beginning of year 2012 **112,594**
 Total lives insured, end of year 2012 **113,822**

Member Profile



Member Retention Rate:
97%

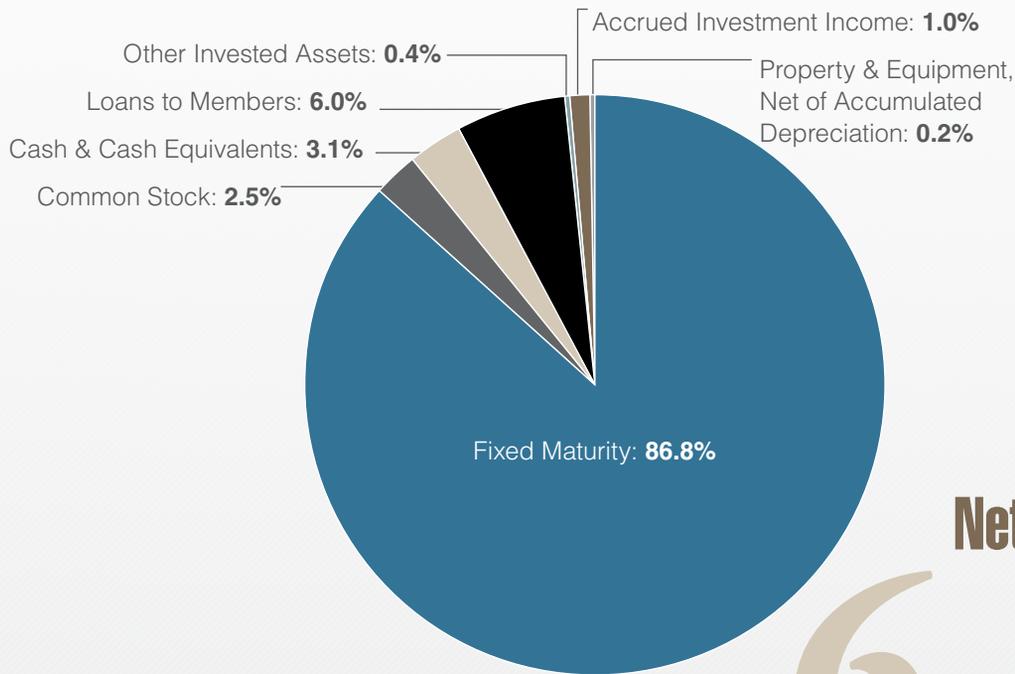


“A wonderful company in whom I have great trust. My father (34-year Navy veteran) used your services and now I (32 year Navy veteran) am following his footsteps.” —David Steere, Capt USN (Ret)

“Navy Mutual is the only provider with the serviceman’s interest at heart.”

—Allan Ward USN (Ret)

2012 Assets

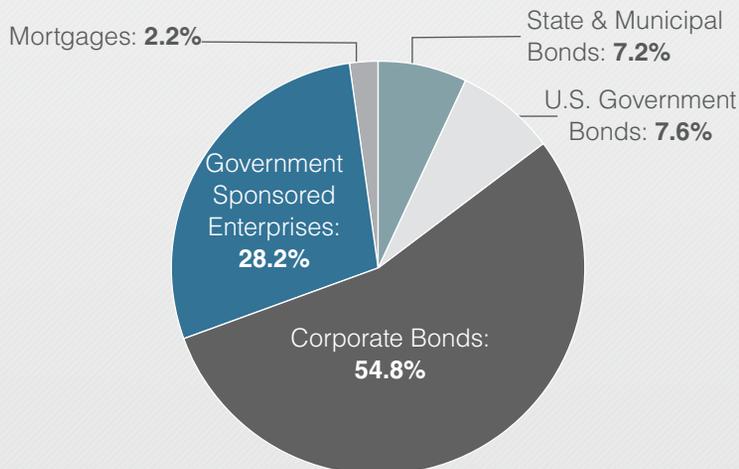


Net Investment Yield:

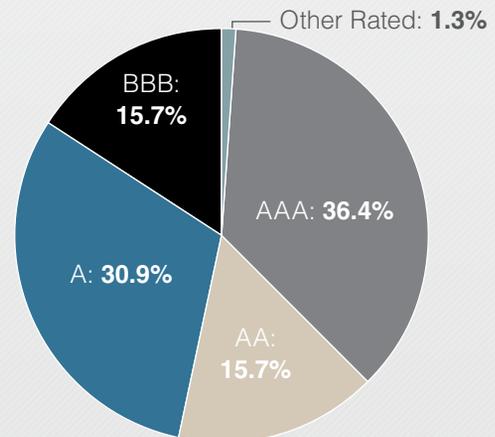
6.43%

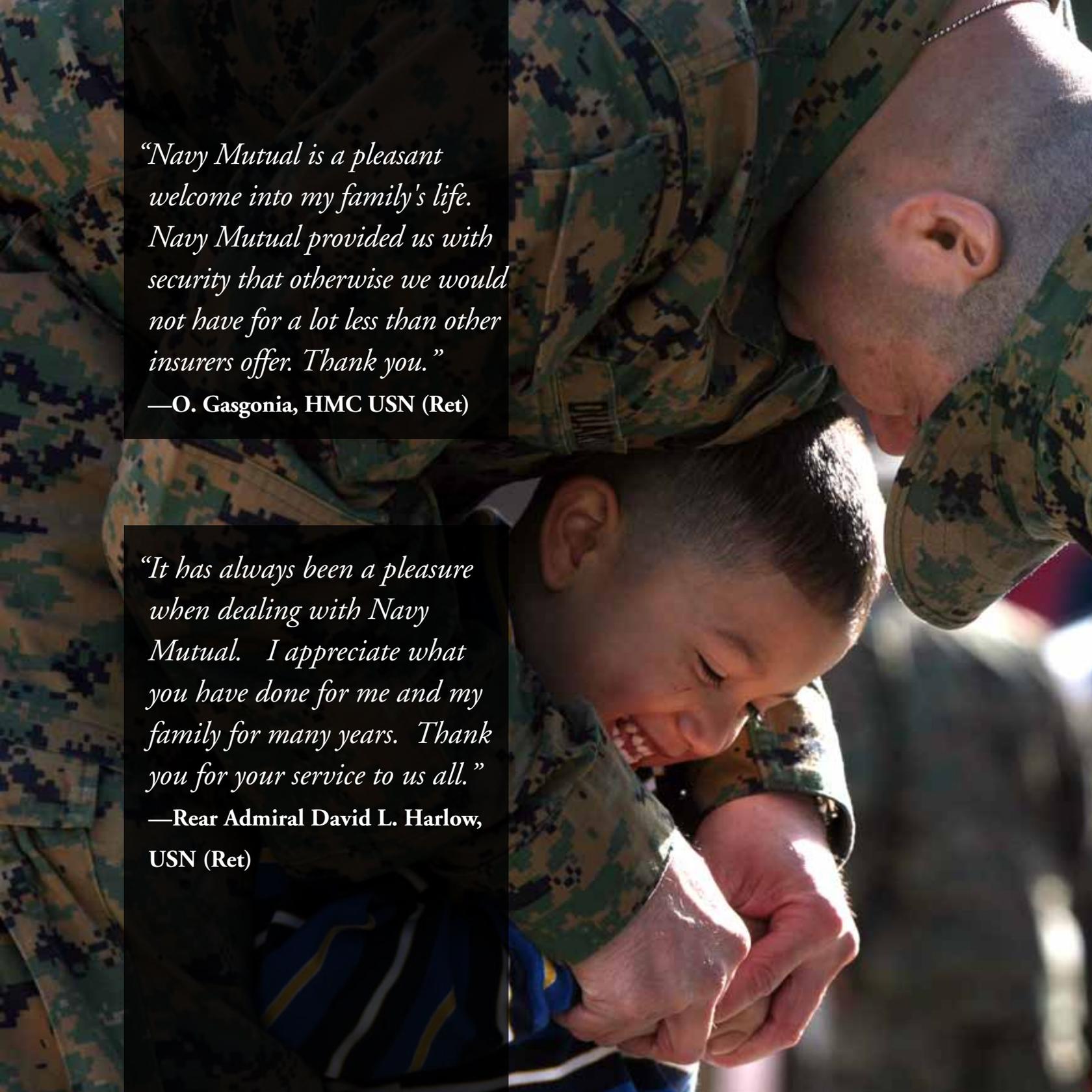
Fixed Income Portfolio

Security Classes



Ratings





“Navy Mutual is a pleasant welcome into my family's life. Navy Mutual provided us with security that otherwise we would not have for a lot less than other insurers offer. Thank you.”

—O. Gasgonia, HMC USN (Ret)

“It has always been a pleasure when dealing with Navy Mutual. I appreciate what you have done for me and my family for many years. Thank you for your service to us all.”

—Rear Admiral David L. Harlow, USN (Ret)

Summary of Financial Position

	December 31,	
	2012	2011
Assets		
Bonds	\$2,288,154,708	\$2,241,682,864
Equity securities	67,014,988	59,810,321
Mortgage loans	52,576,987	45,414,980
Cash and short-term investments	85,461,729	95,156,959
Member loans	161,456,725	157,869,678
Other invested assets	10,376,598	9,239,624
Securities lending reinvested collateral assets	0	39,729,896
Total cash and invested assets	2,665,041,735	2,648,904,322
Other assets	31,832,479	32,420,884
Total assets	2,696,874,214	2,681,325,206
Liabilities		
Aggregate reserve for life contracts	2,259,741,139	2,162,673,753
Death benefits payable	27,290,929	25,898,924
Liability for deposit-type contracts	164,551,403	212,519,974
Other liabilities	24,826,887	19,268,309
Payable for securities lending	0	40,243,470
Total liabilities (excluding asset valuation reserve)	2,476,410,358	2,460,604,430
Asset valuation reserve (AVR)	25,288,305	21,383,630
Net assets	195,175,551	199,337,146
Total net assets and AVR	220,463,856	220,720,776
Total liabilities and net assets	\$2,696,874,214	\$2,681,325,206

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,	
	2012	2011
Revenue		
Premiums – insurance	\$52,591,150	\$53,651,691
Life contingent annuity considerations	19,744,684	32,357,812
Life contingent survivor income deposits	2,533,545	535,866
Net investment income	163,335,149	158,471,412
Other income	1,026,912	1,038,343
Total revenue	239,231,440	246,055,124
Benefits and Expenses		
Member benefits paid	118,961,287	125,751,982
Change in aggregate reserve for life contracts	75,190,361	101,006,111
General operating expenses	22,224,566	15,490,075
Total benefits and expenses	216,376,214	242,248,168
Net gain from operations before net realized capital gains	22,855,226	3,806,956
Net realized capital gains	1,312,874	12,535,299
Net gain from operations	\$24,168,100	\$16,342,255

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).

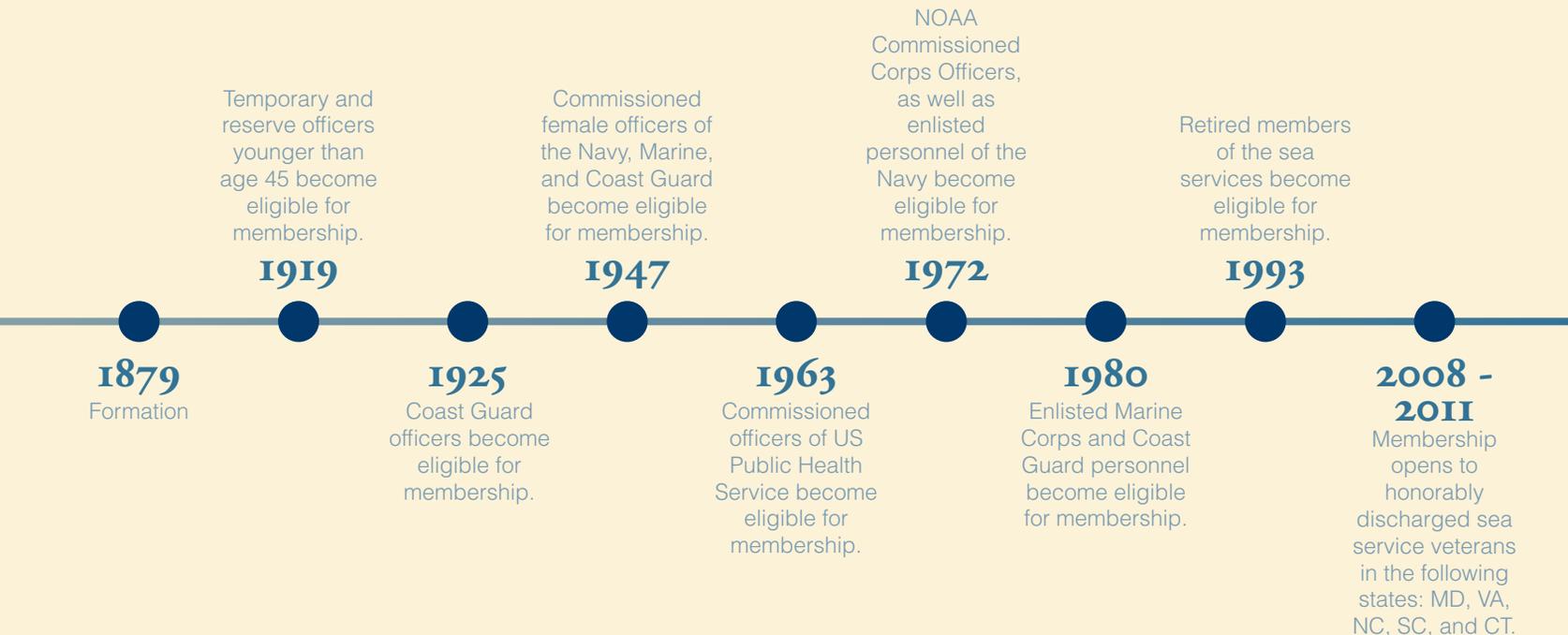
Audited Financial Statements

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.

Expanding *Membership*

The look of Navy Mutual has changed through the years, but our mission to our members has remained constant.

Below is a brief timeline of our evolution from “passing the hat” to a mutual fund organization of more than 100,000 members.



Insuring

Those Who...

Served in World War II For the first time in Navy Mutual history, membership in the association was closed on January 1, 1943, until September 1945. Of the 89,042 sea servicemen casualties, 466 had been members of the association. Membership was reopened shortly after V-J Day.

Served in Korea In July 1950, the Navy Mutual board decided for the second time in less than a decade to close new membership for the duration of the Korean War. On September 19, 1952, membership was reopened.

Served in Vietnam Unlike Korea and World War II, membership in the association was not closed. Of the 17,347 Navy, Marines, and Coast Guard losses, 131 were members of Navy Mutual.

Served in the Gulf War When Saddam Hussein invaded Kuwait in August of 1990, officials of Navy Mutual quickly determined it was not necessary to close membership. Of the seven member losses during the Gulf War, all but one was a non-combat, aviation-related casualty.

September 11, 2001 Association staff members first heard, and then spotted, a low-flying jet aircraft as it barely cleared the office building roof. Seconds later, American Airlines Flight #77 struck the Pentagon. The explosion shook the building and within minutes, the association's building was converted into a medical triage area. Of the 33 active duty Navy personnel that were lost in the terrorist attack on the Pentagon, six of them were Navy Mutual members. One member also was lost in the World Trade Center attacks.

Served in Afghanistan and Iraq From the fall of Baghdad to Operation Neptune Spear, Navy Mutual has been providing financial protection to its members regardless of where they are stationed, or what they do. Navy Mutual does not differentiate premium rates based on duty locations or occupations.

Navy Mutual has provided financial protection to military members and their families in every American conflict since 1879.



Insuring

Those Who Serve

Navy 
★ Mutual