



Management's Discussion and Analysis

INTRODUCTION

This discussion provides an assessment by management of the current financial position, results of operations, cash flows and liquidity, and changes in financial position for North Carolina Mutual Life Insurance Company (North Carolina Mutual or the Company) as of and for the year ended December 31, 2006 as compared to and with 2005. Information presented in this discussion supplements the financial statement exhibits, schedules and disclosures in the 2006 Annual Statement. The basic financial statements included within our 2006 Annual Statement were prepared in accordance with the statements of statutory accounting principles found in the National Association of Insurance Commissioners Accounting Practices and Procedures Manual effective March 2006.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

North Carolina Mutual Life Insurance Company is the nation's oldest and largest insurance company with its roots in the African-American community. The Company has one hundred and eight years of rich history with more than 400,000 individual life policy holders, more than two million employees and family members insured through group plans and more than \$12 billion of insurance in force in 24 states and the District of Columbia.

North Carolina Mutual's aggressive and creative marketing strategy for individual life has us partnering with individuals and organizations throughout the African-American community and we are exceeding every expectation. We have barbers and hair stylists, small business owners, doctors and dentists, churches and the NAACP, talking to clients, customers, friends, neighbors and family about building wealth, accumulating assets, and achieving financial security through the purchase of life insurance.

As a result, the productivity of our sales force has soared and many North Carolina Mutual agents are earning top-dollar. Our agents sold six times more individual life policies in 2006 than the company sold in 2000. The average value of policies sold has doubled and our policyholders are significantly younger. To us, this means that young professionals and others recognize that life insurance is a good, affordable investment – great news for the future of this company. Our strategy is to fuel this significant growth and concentrate on our core individual and group insurance business, which also had a good year in 2006.

The fact that our contacts are deep in the African-American community and that our network is pervasive makes North Carolina Mutual attractive to others seeking entree to African-American consumers. Companies are coming forward with products that can supplement our insurance lines, increase the portfolios of our agents, and result in additional earnings for both our agents and North Carolina Mutual.

The Company continues to do business and forge alliances with top-tier companies whose brands are known worldwide. We are pleased to now be associated with NASCAR. North Carolina Mutual is providing life and dental benefits for this premier racing organization's administrative employees.

The Company is experiencing phenomenal growth in our individual life business. Initially, the sale of life policies places a strain on net income and capital. In the short term, it costs money and surplus to write life policies but in the long term, it is the key to our corporate sustainability. We continue to examine our operations and find where we could be more efficient and generate savings. Over the course of the past year, we made several decisions in order to guarantee financial soundness and corporate viability in the long term.

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The calls and referrals we are receiving are keeping our highly motivated North Carolina Mutual agents busy. Annual premiums generated in 2006 doubled those from policies sold in 2005, making 2006 one of the best years for individual life in the history of the company. The number of policies issued increased 66 percent during the same period. Taking a longer view, our agents sold six times more individual life policies in 2006 than the company sold in 2000.

Much of the credit for the growth in individual life sales goes to Ronald R. Corlew, Director of Individual Marketing Operations, who, with help of other experienced North Carolina Mutual personnel, has designed and implemented a marketing program that is working remarkably well. Besides the development of partnerships to generate leads, our strategy includes goal setting and incentives, as well as maximizing the use of technology. Following best practices in the industry, each agent now has a laptop computer with a uniform presentation and instant access to programs that will provide a potential policyholder's insurance requirements. We are moving rapidly toward paperless transactions to expedite the issuance of new policies.

Regardless of ability and enthusiasm, our agents must have good products to be successful. We have always been proud of our products and the service we provide. However, as times change so do the needs of policyholders. The Company recently added a 20-year term policy to our portfolio and by the end of 2007 will offer 30-year term. Also, because of the penetration we have demonstrated into the African-American market, North Carolina Mutual is viewed as a "center of influence". Other insurance companies are approaching us and asking that we supplement our portfolios with their products. Agreeing to do so selectively makes being a North Carolina Mutual agent even more attractive and financially rewarding and benefits the company's bottom line.

Partnerships with reinsurers, administrators, and insurers for the large group life market, allow us to better reach and serve our markets on a national basis. We also focus on continuing to provide employee benefits for small employers. Our new partnership with Total PlansServices, Inc. (TPSI), has given us a more effective way of distributing and administering employee benefits to small businesses in many states.

Our new relationship with NASCAR is a direct result of our ability to leverage our various strengths with those of our key strategic partners in order to deliver the best products and services to employers and their employees. Both NASCAR and North Carolina Mutual realized that a relationship between our two strong organizations could reach far beyond a traditional insurer employer arrangement. NASCAR, which is the world's premier auto racing organization, sees the African-American community as an area to aggressively expand its fan base.

In addition to the strong insurance values that we offer them, by contracting with North Carolina Mutual for group life and dental benefits, NASCAR recognized that North Carolina Mutual's rich history and community involvement could assist them in meeting their goal of market expansion. North Carolina Mutual understands the opportunity to explore additional business with NASCAR, which includes providing benefits to racing teams and the greater NASCAR family.

We are committed to the mission of the nation's Historically Black Colleges and Universities (HBCU) and affinity groups, such as fraternities and sororities, and continue to strengthen our ties with them. In late 2006, we teamed with AVI and the National Association for Equal Opportunity in Education to provide access to financial and physical wellness seminars and other tools that ultimately will improve the sustainability of HBCUs and the communities they serve.

FINANCIAL POSITION

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For the year ended December 31, 2006, total net admitted assets decreased \$4.5 million, total liabilities decreased \$6.9 million, and capital and surplus increased by \$2.4 million.

Assets

During 2006, North Carolina Mutual's investments in common stocks declined by \$2.0 million and bond holdings increased by \$1.7 million. Cash and short-term investments also increased by \$10.1 million due to the sale of the home office property. In all, total available liquid resources increased by \$10.4 million.

Other sources of proceeds included reductions in church loans during 2006 totaling \$1.6 million (net of repayments) and the liquidation of our investment in the Piedmont Strategic Resource Fund, totaling \$2.4 million. Management continues to believe that church loans provide a positive risk-adjusted spread to the 10-year Treasury benchmark as well as generate current fee income. We are pleased with the traction we are seeing in the marketplace through this important African-American "Center of Influence".

The Company completed the sale of its headquarter building in December 2006, resulting in a net gain of \$7.2 million; however \$1.0 million of the gain has been deferred to future periods due to lease guarantees related to a third party tenant. In 2007, the Company expects operating income to increase by \$800,000 as a result of no longer owning the headquarter building.

Investment income due and accrued was essentially flat. Uncollected premiums and considerations decreased sharply by \$9.4 million, due to the change in accounting method affecting certain Group Life reinsurance assumed cases and establishing of a note receivable for a large third party administrator.

Other assets increased by \$2.7 million during the year. The largest component of this increase was amounts recoverable from reinsurers on our group assumed business.

Liabilities

The increase in policy reserves of \$3.4 million was primarily due to the growth in new business and a \$1.4 million reclassification of amounts from claim reserves to policy reserves.

Life policy claim liabilities decreased by \$5.2 million due to the reclassification mentioned above, the termination of certain group assumed business and the impact of deposit accounting treatment for certain reinsurance contracts. A&H policy claim liabilities decreased by \$1.5 million as a result of a reduction in the amount of small group medical business, a release of reserves that were held for the Group Student Sports & Accident block of business and other reserve changes related to the dental and other A&H claims reserves.

Other liabilities and accrued expenses decreased by \$3.1 million, mostly attributable to a decrease in investment related reserves of \$1.4 million as a result of the sale of the home office property, reduced stock holdings and the liquidation of the Piedmont Strategic Research Fund.

Capital and Surplus

Surplus grew by \$2.4 million during 2006. The net operating loss of \$4.6 million was offset by the \$6.2 million gain from the sale of the home office building and other realized investment gains, resulting in net income of \$1.7 million. All other changes, principally changes in non-admitted assets, deferred taxes, and valuation reserves resulted in the remaining net increase of \$.6 million.

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The Company's level of regulatory capital continues to stabilize. Authorized Control Level Risk Based Capital remained at \$5.4 million in 2006. The Company's Risk Based Capital ratio was 298% as of December 31, 2006, an improvement from 263% at December 31, 2005.

RESULTS OF OPERATIONS

For the year, the Company reported a net profit of \$1.7 million, a \$4.3 million improvement from 2005's loss of \$2.6 million. This year's results reflect two significant non-recurring items; a \$6.2 million gain from the sale of the home office building and \$440,000 of one-time expenses associated with early retirement and reduction-in-force initiatives that occurred in late 2006. These initiatives will result in a reduction in salary and related costs in excess of \$700,000 in 2007.

Gross premiums decreased from \$106.8 million in 2005 to \$100.4 million in 2006. The decrease in premiums is primarily attributable to three lines of business; the Employer Market decreased by \$3.2 million as new groups came on board at a slower pace than terminated programs, the reduction of \$3.5 million associated with the change in accounting method for certain group reinsurance assumed cases, and the impact of acquisition accounting for a block of business assumed from North America Life in 2005, representing a \$.9 million decrease in net premiums.

Net investment income remained constant at \$4.9 million during 2006. Commissions and expense allowances increased by \$1.8 million, directly associated with reinsurance ceded. Policyholder benefits decreased insignificantly from \$56.6 million in 2005 to \$54.7 million in 2006.

Expenses increased by \$1.7 million to \$33.0 million during 2006. Commissions and expense allowances remained constant with 2005 levels while general insurance expenses increased by \$610,000 or 2%, primarily due to the costs related to early retirement and reduction in force efforts. The Company also participates in qualified and nonqualified retirement plans. Costs associated with those plans increased by \$625,000 compared to 2005.

CASH FLOW AND LIQUIDITY

The large cash balance of \$17.5 million at the end of the year was due to the infusion of \$11.4 million of cash from the sale of the home office property. Total net cash from investments of \$16.2 million also included the divestiture of a portion of the common stock portfolio and the liquidation of the investment in Piedmont Strategic Research Fund. Cash and liquidity are sufficient to meet the Company's anticipated current short-term operational and growth cash needs. In addition to the \$17.5 million of available cash and short-term investments, \$.6 million of the carrying value investment in bonds represents scheduled maturities within 2007. The Company does not currently have any material commitments for capital expenditures. In addition to the resources described above, the Company intends to pursue other sources of capital to fund its long-term growth strategies.

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SUMMARY OF ASSETS
AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

| | 2006 | | 2005 | | Inc/(Dec) for Year | |
|---|-----------------------|---------------|-----------------------|---------------|----------------------|-----------------|
| | Amount | % of Total | Amount | % of Total | Variance | % of Change |
| Cash and short-term investments | \$ 17,462,514 | 12.50% | \$ 7,358,187 | 5.10% | \$10,104,327 | 137.32% |
| Bonds | | | | | | |
| Governments- Loan Backed | \$ 10,377,998 | 7.43% | \$ 4,740,929 | 3.29% | \$5,637,069 | 118.90% |
| Governments- Not Backed by Other Loans | 18,429,364 | 13.19% | 26,947,174 | 18.67% | (8,517,810) | -31.61% |
| State and Municipal | 135,095 | 0.10% | 255,446 | 0.18% | (120,351) | -47.11% |
| Public Utility, US and Canada | 1,014,872 | 0.73% | 1,080,176 | 0.75% | (65,304) | -6.05% |
| Industrial and Miscellaneous | 49,979,678 | 35.76% | 45,249,748 | 31.36% | 4,729,930 | 10.45% |
| Total Bonds | 79,937,007 | 57.20% | 78,273,473 | 54.24% | 1,663,534 | 2.13% |
| Common Stocks | 1,695,833 | 1.21% | 3,719,299 | 2.58% | (2,023,466) | -54.40% |
| Mortgage Loans | 10,866,522 | 7.78% | 12,440,550 | 8.62% | (1,574,028) | -12.65% |
| Real Estate | 25,104 | 0.02% | 3,533,386 | 2.53% | (3,508,282) | -99.29% |
| Loans to Policyowners | 4,849,403 | 3.47% | 4,815,899 | 3.34% | 33,504 | 0.70% |
| Receivables for securities | 0 | 0.00% | 500,000 | 0.35% | (500,000) | -100.00% |
| Other Invested Assets | 125,948 | 0.09% | 2,558,518 | 1.77% | (2,432,570) | -95.08% |
| Total Invested Assets | 114,962,331 | 82.26% | 113,199,312 | 78.44% | \$1,763,019 | 1.56% |
| Investment Income Due or Accrued | 1,603,235 | 1.15% | 1,511,987 | 1.05% | \$91,248 | 6.03% |
| Premiums in Course of Collection | 6,895,451 | 4.93% | 16,024,374 | 11.10% | (\$9,128,923) | -56.97% |
| Cash Value - Policies on Officers | 9,323,486 | 6.67% | 9,496,108 | 6.58% | (\$172,622) | -1.82% |
| EDP Equipment | 40,519 | 0.03% | 106,578 | 0.07% | (\$66,059) | -61.98% |
| Amounts Recoverable from Reinsurers | 6,925,577 | 4.96% | 3,672,348 | 2.54% | \$3,253,229 | 88.59% |
| Other Assets | - | 0.00% | 295,475 | 0.20% | (\$295,475) | 0.00% |
| Total Assets | \$ 139,750,599 | 100% | \$ 144,306,182 | 98% | (\$4,555,583) | -3.16% |

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SUMMARY OF LIABILITIES & SURPLUS
AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

| | 2006 Amount | 2005 Amount | Inc/(Dec) for Year | |
|--|-----------------------|-----------------------|----------------------|----------------|
| | | | Variance | % of Change |
| Policy Reserves: | | | | |
| Life Insurance | \$ 97,083,800 | \$ 93,617,280 | \$3,466,520 | 3.70% |
| Accident and Health | 428,357 | 523,518 | (95,161) | -18.18% |
| Deposit-Type Contracts | 2,807,986 | 2,816,383 | (8,397) | -0.30% |
| Total Policy Reserves: | 100,320,143 | 96,957,181 | 3,362,962 | 3.47% |
| Claim Reserves: | | | | |
| Life Insurance | \$ 9,497,124 | \$ 14,752,818 | (\$5,255,694) | -35.63% |
| Accident and Health | 1,905,487 | 3,394,458 | (1,488,971) | -43.86% |
| Total Claim Reserves: | 11,402,611 | 18,147,276 | (6,744,665) | -37.17% |
| Policyholders' Dividend Reserves: | | | | |
| Dividends Payable | 409,394 | 479,729 | (70,335) | -14.66% |
| Total Policyholders' Div. Res: | 409,394 | 479,729 | (70,335) | -14.66% |
| Other Policy Liabilities: | | | | |
| Premiums Received in Advance | \$ 139,301 | \$ 140,987 | (\$1,686) | -1.20% |
| Group Life Funds Held on Deposit | 876,429 | 2,320,591 | (1,444,162) | -62.23% |
| Total Other Policy Liabilities: | 1,015,730 | 2,461,578 | (1,445,848) | -58.74% |
| Amounts Due or Accrued: | | | | |
| Commissions to Agents | \$ 39,285 | \$ 52,387 | (\$13,102) | -25.01% |
| Expense Allow. On Rein. Assumed | 180,385 | 815,001 | (634,616) | -77.87% |
| General Expenses | 1,194,199 | 1,344,420 | (150,221) | -11.17% |
| Taxes, Licenses and Fees | 696,650 | 226,920 | 469,730 | 207.00% |
| Federal Income Taxes | 0 | 0 | 0 | 0.00% |
| Drafts Outstanding | 210,657 | 233,961 | (23,304) | -9.96% |
| Deferred Gain on Real Estate | 998,421 | 1,703 | 996,718 | 0.00% |
| Total Amounts Due or Accrued: | 3,319,597 | 2,674,392 | (351,513) | -13.14% |
| Investment Liabilities: | | | | |
| Unearned Income | \$ 5,447 | \$ 11,974 | (\$6,527) | -54.51% |
| Amounts Held for Others: | | | | |
| Retained by Company | \$16,930 | \$666,339 | (\$649,409) | -97.46% |
| Held for Agents | 76,603 | 82,189 | (5,586) | -6.80% |
| Remittances and Items not Allocated | 769,173 | 1,040,855 | (271,682) | -26.10% |
| Liability for Benefits for Emp. and Agents | 3,497,020 | 3,815,284 | (318,264) | -8.34% |
| Interest Maintenance Reserve | 0 | 573,020 | (573,020) | -100.00% |
| Asset Valuation Reserve | 1,013,774 | 1,521,832 | (508,058) | -33.38% |
| Reinsurance in unauthorized companies | 0 | 735,394 | (735,394) | -100.00% |
| Funds held Rein in unauthorized companies | 2,959,273 | 2,570,533 | 388,740 | 15.12% |
| | 8,332,773 | 11,005,446 | (2,672,673) | -24.29% |
| Total Liabilities | 124,805,695 | 131,737,576 | (2,672,673) | -2.03% |
| Surplus | 14,944,904 | 12,568,606 | 2,376,298 | 18.91% |
| TOTAL LIABILITIES & SURPLUS | \$ 139,750,599 | \$ 144,306,182 | (\$5,552,301) | -3.85% |

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SUMMARY OF OPERATIONS
FOR THE PERIOD ENDING DECEMBER 31

| <u>INCOME</u> | | | | | <u>Inc/(Dec) for Year</u> | |
|--|----------------------|-------------------------|----------------------|-------------------------|---------------------------|-----------------|
| | <u>2006</u> | <u>Percent of Total</u> | <u>2005</u> | <u>Percent of Total</u> | <u>Variance</u> | <u>% Change</u> |
| <i>Life Premiums</i> | | | | | | |
| Group Assumed Premiums | \$25,957,069 | 31.2% | \$28,974,129 | 34.1% | (\$3,017,060) | -10.41% |
| Group Direct Premiums | 3,661,323 | 4.4% | 3,759,658 | 4.4% | (98,335) | -2.62% |
| Individual Industrial Life Premiums | (40,042) | 0.0% | 66,125 | 0.1% | (106,167) | -160.55% |
| Individual Ordinary Life Premiums | 13,516,355 | 16.3% | 12,582,065 | 14.8% | 934,290 | 7.43% |
| Individual Worksite UL Premiums | 902,833 | 1.1% | 921,188 | 1.1% | (18,355) | -1.99% |
| <i>Accident and Health Premiums</i> | | | | | | |
| Group A&H Premiums | 23,690,207 | 28.5% | 23,810,954 | 28.1% | (120,747) | -0.51% |
| Individual A&H Premiums | 473,899 | 0.6% | 524,675 | 0.6% | (50,776) | -9.68% |
| Total Premium Income | 68,161,644 | 82.0% | 70,638,794 | 83.2% | (2,477,150) | -3.51% |
| <i>Net Investment Income</i> | 4,939,965 | 5.9% | 4,920,931 | 5.8% | 19,034 | 0.39% |
| <i>Amortization of IMR</i> | 760,263 | 0.9% | 939,586 | 1.1% | (179,323) | -19.09% |
| <i>Expense Allowance from Reinsurance</i> | 7,282,086 | 8.8% | 5,506,602 | 6.5% | 1,775,484 | 32.24% |
| <i>Reserve Adjustments on Reinsurance Ceded</i> | 549,338 | 0.7% | 362,785 | 0.4% | 186,553 | 51.42% |
| <i>Miscellaneous Income</i> | 1,392,988 | 1.7% | 2,508,665 | 3.0% | (1,115,677) | -44.47% |
| Total Income | 83,086,284 | 100.0% | 84,877,363 | 100.0% | (1,791,079) | -2.11% |
| <u>DEDUCTIONS FROM INCOME</u> | | | | | | |
| <i>Paid to Policyholders:</i> | | | | | | |
| Death Benefits | \$32,506,416 | 37.1% | \$37,298,459 | 42.4% | (\$4,792,043) | -12.85% |
| Matured Endowments | 43,754 | 0.0% | 110,172 | 0.1% | (66,418) | -60.29% |
| Disability Benefits | 16,221,518 | 18.5% | 14,524,956 | 16.5% | 1,696,562 | 11.68% |
| Surrender Benefits | 2,040,827 | 2.3% | 2,238,467 | 2.5% | (197,640) | -8.83% |
| Group Conversions | 58,228 | 0.1% | 80,228 | 0.1% | (22,000) | -27.42% |
| Increase in Reserves | 3,371,357 | 3.8% | 1,853,207 | 2.1% | 1,518,150 | 81.92% |
| Dividends | 384,476 | 0.4% | 445,026 | 0.5% | (60,550) | -13.61% |
| Interest on Policy or Contract Funds | 67,661 | 0.1% | 84,711 | 0.1% | (17,050) | -20.13% |
| Total for Policyholders | 54,694,237 | 62.4% | 56,635,226 | 64.4% | (1,940,989) | -3.43% |
| <i>Operating Costs:</i> | | | | | | |
| Commissions | \$4,148,333 | 4.7% | \$4,019,471 | 4.6% | \$128,862 | 3.21% |
| General Insurance Expenses | 27,011,496 | 30.8% | 26,401,537 | 30.0% | 609,959 | 2.31% |
| Taxes, excluding fed. Inc. tax | 2,207,312 | 2.5% | 1,613,006 | 1.8% | 594,306 | 36.84% |
| Increase in Loading | 516,259 | 0.6% | 415,895 | 0.5% | 100,364 | 24.13% |
| Other Items | (897,739) | -1.0% | (1,191,959) | -1.4% | 294,220 | -24.68% |
| Total Operating Costs | 32,985,661 | 37.6% | 31,257,950 | 35.6% | 1,727,711 | 5.53% |
| Total Deductions from Income | 87,679,898 | 100.0% | 87,893,176 | 100.0% | (213,278) | -0.24% |
| Gross Operating Gains | (\$4,593,614) | | (\$3,015,813) | | (\$1,577,801) | 52.32% |
| <i>Federal Income Tax Incurred</i> | \$0 | | (\$46,828) | | \$46,828 | -100.00% |
| Gain from Operations | (\$4,593,614) | | (\$2,968,985) | | (\$1,624,629) | 54.72% |
| <i>Realized Capital Gains, (losses) Net of Tax &</i> | | | | | | |
| Transfer to IMR | \$6,343,339 | | \$355,313 | | \$5,988,026 | 1685.28% |
| NET INCOME | \$1,749,725 | | (\$2,613,672) | | \$4,363,397 | -166.95% |