



## Management's Discussion and Analysis

### OBJECTIVE AND BACKGROUND

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, 2010 as compared to 2009. Information presented in this discussion supplements the financial statement exhibits, schedules and disclosures in the 2010 Annual Statement. The basic financial statements included within our 2010 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 December 2010.

The Company is a North Carolina domiciled mutual life insurance company that provides a wide variety of insurance products, including individual life and health and dental products through group plans for both large and small organizations. The Company, founded in 1898, is the nation's oldest and largest insurance company with roots in the African American community and is licensed in 24 states and the District of Columbia.

The Company continues to capitalize on our brand strength and durability in the marketplace. Two years after acquiring a large block of premium paying policies from Booker T. Washington Insurance Company (BTW), we have seen our footprint grow in the southern United States. Additionally, the Company acquired substantially all the assets and operations of The Signature Group, LLC (Signature or the Signature Group), located in Gadsden, Alabama in December 2010. The Signature Group provides advance funding to over 100 funeral homes around the country and allows the Company to continue to extend our market reach in the South. This strategic acquisition will help the Company build strong relationships with funeral directors and expand our business into other targeted states. Relationships like BTW and Signature along with long-standing partnerships with the National Urban League, NAACP, faith community and higher education are integral to the Company's growth strategy for the individual life insurance business.

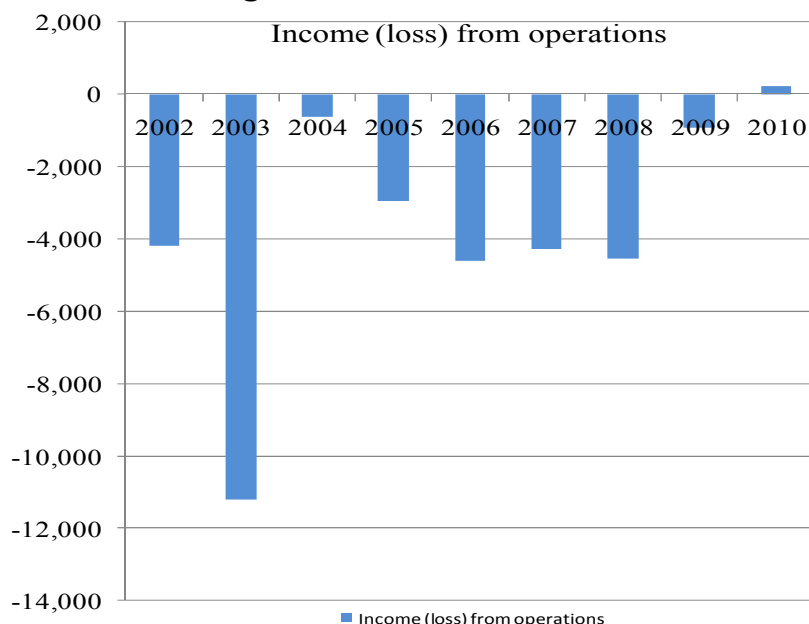
Over the last few years, with a drastically weakened economy and a troubled investment environment, the Company has focused the majority of its efforts on numerous strategic initiatives to reduce overall expenses, reprice its products, exit from poorly performing business segments, acquire profitable portfolios of policies, redeploy capital and strengthen the human capital component of the operations. Because of these efforts and many others, the Company returned to profitable operations in 2010 after eight straight years of operating losses. We look forward to 2011 as a year of fiscal stabilization for our company and the economy. We will continue to work hard to strengthen our operating results, cash flow and balance sheet by continuing to find more efficient modes of operation, pursuing acquisitions and forming strategic partnerships that expand our reach and contribute profits to the overall company.

### OPERATIONAL AND FINANCIAL HIGHLIGHTS

#### RESULTS OF OPERATIONS

Despite a challenging economic environment, overall softness in the insurance markets, and a decline in the performance of our investments, the Company managed a return to profitability in 2010 after eight straight years of operating losses.

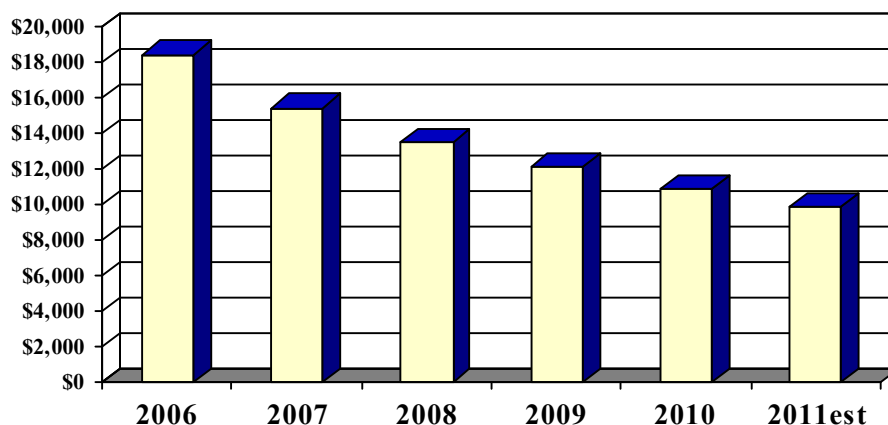
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For the year, the Company reported net income of \$790,000, a \$3.3 million improvement from 2009's net loss of \$2.5 million. The Company had realized gains in 2010 of \$559,000 from the sale of its remaining ownership in an investment advisory firm. Even though the Company recorded realized losses of \$1.6 million in 2009 due to diminished investment values and other-than-temporary impairments, the Company's overall prudent investment strategy allowed it to generally weather the market declines of 2008 and 2009 without further write-downs in 2010. In addition, the beginnings of a market recovery in 2010 allowed for significant valuation improvements to its investment portfolio.

The Company reported a net profit from operations of \$231,000, a \$1.2 million improvement from 2009. As a result of continued efforts to streamline operations and reduce overall administrative expenses, general and administrative expenses declined by over \$2.1 million to \$11.5 million in 2010. Since 2006, the Company has eliminated \$7.6 million, or 41%, of general and administrative expenses and expects to realize an additional \$1 million of reductions in 2011. The primary sources of these reductions have been in salaries/benefits, travel, utilization of consultants/outside services, rent and other office related expenses.

### Corporate G&A Costs



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In previous years, the Company made several strategic decisions in order to return to profitability and a stronger capital position. These strategies continued to yield favorable results in 2010. These previous strategies included, but were not limited to, the implementation of premium increases, the restructuring of the reinsurance program to better manage capital requirements amid thin margins and a soft market, the review of the employer market segment resulting in the termination of unprofitable cases and, finally, the pursuit of alternatives for capital raises that bolster our absolute capital position and improve our adequacy ratios.

Net premiums decreased by \$5.2 million from \$26.7 million in 2009 to \$21.5 million in 2010. The decline is primarily attributable to a drop off in agent productivity due to the Company restructuring its agent compensation plan, increased reinsurance on new business and the termination of the unprofitable employer market cases.

Net investment income declined by almost \$1.2 million to \$6.2 million, primarily due to historically low interest rates and a conservative investment strategy implemented by the Company whereby most of the new investments were made in Treasuries and other safe investments.

Other income of \$1.6 million was a \$2.3 million improvement from the 2009 loss of \$682,000. The increase was primarily due to three factors; an improvement in the overall performance of employer market cases whereby the Company utilizes deposit accounting, a new strategic marketing fee arrangement with one of our large corporate partnerships and a turnaround in the Company's share of the Federal Employers Group Life Insurance program (FEGLI).

### FINANCIAL POSITION

#### Assets

For the year ended December 31, 2010, net admitted assets totaled \$152.1 million, an increase of \$484,000, liabilities totaled \$144.1 million, a decrease of \$1.1 million, and surplus totaled \$7.9 million, an increase of \$1.6 million from the prior year end.

The liquidity requirements of the Company relate to the ability to fund payment of losses and operating expenses in the normal course of business. The primary sources of cash to meet these requirements are premiums, investment income and proceeds from the sale, redemption or maturity of investments. The Company proactively manages its cash position in a manner that results in all funds being able to earn interest at all times while maintaining a sufficient amount of cash and short-term investments to meet current needs. The Company had positive cash flow from operations of \$730,000 in 2010 compared to negative cash flow of \$2.8 million in the previous year. The Company expects that available liquidity will continue to be more than sufficient to meet its current needs.

Total invested assets declined by \$5.6 million, or 4%, to \$126.6 million in 2010. The Company, as in prior years, utilizes an outside investment advisor to assist management and the Board of Directors in establishing investment guidelines and executing investment transactions. The Company's philosophy is to invest primarily in high quality investment grade diversified fixed income securities while limiting the amount of equity securities in the portfolio. At December 31, 2010, approximately 84% of the fixed income portfolio is comprised of NAIC-1 designated securities. The Company

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continually analyzes the mix of its invested assets and evaluates alternative investment vehicles in order to maximize return while achieving an appropriate balance of risk.

The table below shows the Company's conservative investment mix over the last five years (as a percentage of total cash and invested assets):

Investment Mix	2010	2009	2008	2007	2006
Bonds	76.6	75.5	75.8	77.4	69.5
Stocks	0.4	0.3	0.7	0.8	1.5
Mortgage Loans	9.8	9.8	9.3	10.7	9.5
Cash/short-term	5.5	9.3	8.9	6.4	15.2
Contract Loans	5.1	4.9	4.7	4.6	4.2
Other inv assets	2.6	0.2	0.5	0.0	0.0

We continue to believe that our mortgage-lending program provides a positive risk-adjusted spread to Treasury benchmarks, as well as generate current fee income, and are pleased with the continuing traction that we see in the marketplace. The Company did not issue any new mortgages during 2010 and is in the process of selling and/or foreclosing on certain properties that have become delinquent as a result of the economic slowdown. The Company has recorded allowances for properties where the fair value of the property less a reasonable estimate of costs to dispose does not exceed the loan balance on our books at year-end.

The sharp decrease in cash and short-term investments are the result of the Company paying off \$5.0 million in policy loans on company-owned officer life insurance and the funding of the Signature Group. Bonds declined due to the sale of certain investments designed to realize gains and strengthen the overall NAIC ratings in the portfolio. Other invested assets of \$3.3 million represent a \$3.0 million bond reclassified by the Securities Valuation Office of the NAIC in December 2010 (this bond received an NAIC -1 classification from the SVO) and our equity investment in the Signature Group subsidiary.

The Company focused on reducing amounts due from uncollected premiums and reinsurers and, as a result, balances in those accounts saw a decline from the previous year. The \$2.0 million receivable from parent, subsidiary and affiliates relates exclusively to our funding of the Signature Group. The significant increase in CSV Officers Insurance is the result of the Company paying down policy loans on the company-owned officer life insurance policies in 2010.

### Liabilities

Total liabilities decreased by \$1.1 million to \$144.1 million at December 31, 2010. Policy reserves, which comprise almost 90% of the total liabilities, remained flat with a decrease of \$421,000, or less than 0.5%. The sale of investments with large unrealized gains generated the \$2.0 million increase in the Interest Maintenance Reserve ("IMR") and will be amortized into income in future years. These increases were partly offset by a \$1.7 million decrease in Funds Held Under Coinsurance and Group Funds Held on Deposit as a result of the termination of certain programs during 2010.

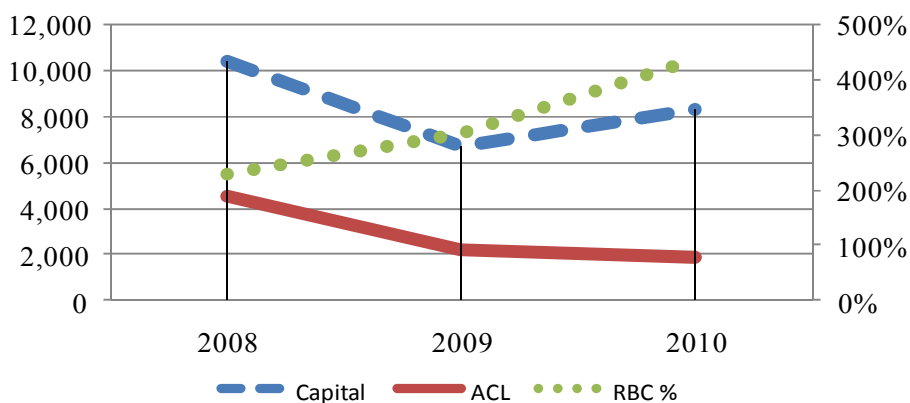
### Capital and Surplus

Surplus increased by \$1.6 million during 2010 to \$7.9 million, primarily due to the net income of \$790,000, the surplus impact from the sale of the Company's remaining ownership in an investment advisory firm of \$1.0 million and the net deferred tax asset \$462,000 recorded in 2010. These were

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partially offset by negative prior period adjustments due to external audit adjustments and the write off of old uncollectible receivable balances.

Because of focused efforts to maximize the efficient use of available capital and to return the Company to profitability, our risk based capital (RBC) ratio has improved significantly over the past several years. The Company's authorized control level required capital has declined to \$1.9 million, a \$2.6 million or 58% decline from 2008, primarily due to a reduction in our overall insurance risk. With the increase of total adjusted capital in 2010 to \$8.3 million, the Company's RBC ratio has improved from 230% at December 31, 2008 to 436% in 2010. The Company continues to analyze each line of business to assess profitability as it relates to cost of capital, identify opportunities to better manage our capital thresholds and bolster our efforts to improve profitability in 2011 through additional expense reductions and other acquisition opportunities.



The Company is not a party to any off-balance sheet arrangements that are reasonably likely to materially affect the liquidity of the Company. Additionally, the Company does not have any High-Yield Financings or Highly Leveraged Transactions.

This Management's Discussion and Analysis ("MD&A") of Financial Position and Results of Operations contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("the PSLRA"). When used in this MD&A, and in future filings with the North Carolina Department of Insurance, in our news releases, and in oral statements, including statements relating to the trends in operations and financial results and the business and products of North Carolina Mutual as well as other statements, the words or phrases such as "anticipate", "believe", "plan", "estimate", "expect", "will likely", "may" and other similar expressions are intended to identify such forward-looking statements. These forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects on the Company and involve risks and uncertainties that may cause our actual results to differ materially from the results discussed in the forward-looking statements. Such forward-looking statements are not guarantees of future performance.