

2007 Annual Report



AAFMAA

Always There for
Members and Families

Since 1879

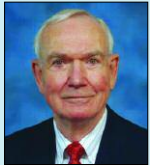


Our Mission is to be the premier provider of insurance and survivor services to the Army and Air Force communities.

AAFMAA BOARD OF DIRECTORS

(as of 31 December 2007)

EXECUTIVE COMMITTEE



DONALD M. BABERS
LTG, USA, Retired
Chairman of the Board



JACK N. MERRITT
GEN, USA, Retired
Vice Chairman of the Board
Chairman, Finance Committee



DENNIS J. REIMER
GEN, USA, Retired
Chairman, Membership Committee



WALTER R. LINCOLN, CFP®
MAJ, USA, Retired
President and Treasurer

CHAIRMAN EMERITUS

GEN WALTER T. KERWIN, JR., USA, Retired

DIRECTOR EMERITUS

GEN JOHN R. GUTHRIE, USA, Retired

ASSOCIATION OFFICERS

MAJ WALTER R. LINCOLN, CFP®, USA, Retired
President and Treasurer

LTC TOM E. HARGIS, USA, Retired
Secretary

CMSgt BRADY M. GRULER, FLMI, USAF, Retired
Vice President for Insurance

MEMBERSHIP COMMITTEE



JOE R. REEDER
MAJ, USAR



JOHN A. DUBIA
LTG, USA, Retired



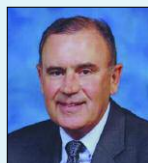
DONALD W. SHEPPERD
Maj Gen, USAF, Retired



ELISABETH J. STRINES
Col, USAF, Retired



JOHN A. SHAUD
Gen, USAF, Retired



TYRUS W. COBB
COL, USA, Retired



JOSEPH E. DEFRANCISCO
LTG, USA, Retired



GEORGE L. HORVATH
CSM, USA, Retired

FINANCE COMMITTEE



SAM E. PARISH
CMSAF, USAF, Retired



L. DONNE OLVEY
BG, USA, Retired



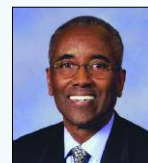
GEORGE T. GREILING
LTC, USA, Retired



ROBERT L. SMOLEN
Maj Gen, USAF, Retired



JAMES P. GERSTENLAUER
COL, USA, Retired



MACK C. HILL
BG, USA, Retired



LARRY O. SPENCER
Maj Gen, USAF

(Board members are listed in order of longevity on the Board.)

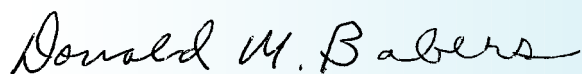
In my second year as your Chairman, I'm honored to address the membership in this 2007 Annual Report. By providing unbeatable life insurance products and invaluable Survivor Assistance Services, AAFMAA protects members and their families. Every member can be absolutely certain that they are receiving insurance at the lowest possible cost and services unmatched by any other insurance company. In 2007, membership, insurance in force and policies in force all reached record highs. These positive results are evidence of AAFMAA's continuing vitality and strength in serving its members. Please see the Message from the President and Treasurer for additional details on AAFMAA's accomplishments.

It's often helpful to look back on the past to better understand where we are today. When Lieutenant Colonel Custer led his ill-fated expedition at the Battle of Little Bighorn, the massacre that resulted emphasized the desperate circumstances of bereaved Army families of that era. Following that tragedy, a group of officers began to talk seriously about founding a benefit society for Army officers. Their initiative resulted in the organizational meeting of the Army Mutual Aid Association on 13 January 1879. In its first year, some 300 individuals joined. Today, one hundred and twenty nine years later, our Association has grown to 78,557 members.

I begin this Annual Report with an emphasis on AAFMAA's membership because you are our foundation. Since our beginning, AAFMAA has been an active membership association created by military members, for the benefit of military members and their families. To recognize our Association's contributions to the military community, throughout this report you'll see testimonials from fellow members and their survivors, sharing their personal experiences of outstanding service from AAFMAA. After all, our strongest supporters are the survivors we have helped and the members who have had the opportunity to observe AAFMAA's unique Survivor Assistance Services.

With a sound financial structure, quality portfolio of investments and talented and progressive leadership, AAFMAA is well poised for continued success. These qualities that make AAFMAA the company of choice for the military community will lead us to an exciting future. It is my honor to continue to serve the membership as Chairman of the Board. I pledge to do my part to ensure that AAFMAA's legacy of membership and dedicated service lives on for current members and generations to come.

Respectfully,



DONALD M. BABERS

Lieutenant General, USA, Retired
Chairman, Board of Directors

MESSAGE FROM THE CHAIRMAN



By providing unbeatable life insurance products and invaluable Survivor Assistance Services, AAFMAA protects members and their families. Every member can be absolutely certain that they are receiving insurance at the lowest possible cost and services unmatched by any other insurance company.

In Their Own Words...

We don't need to tell you why our members are committed to AAFMAA. They have done it for us.



When AAFMAA membership was extended to include the Air Force, I joined within the first week. My objective was to ensure protection and continuing assistance to my young military wife who might not be prepared to face the challenges of becoming a widowed single mother at an early age—all by herself. I had no idea that she would succumb to cancer at the age of 41 and that I would be the one to need the guidance and action that only AAFMAA can provide to a remaining spouse. In later years, I would turn to the great AAFMAA team to provide me sound advice and positive action in a wide variety of areas. I do not know any agency or company that could have provided this exceptional help to me. I am grateful to all the folks at AAFMAA for the splendid service provided through the years. I could not have received finer assistance from any other organization. That's why there are three generations in the Gross family insured with AAFMAA; myself, my son Gary and my granddaughter Ronnie.

Col (Ret) Alan Gross
Member since 1985



Since becoming members of AAFMAA and switching our whole life and adding term policies, we have realized increased savings and value. This has come at a most critical time, as I have recently retired from the Army, and every dollar saved is a plus. Although our previous insurance provider was good, it could not compete with the great savings and exceptional service provided by all of the associates of AAFMAA. The associates took a personal interest in my needs and advised me with a quality product. You were able to provide a whole life policy that was cheaper than the similar policy I obtained from my previous insurance carrier seven years ago. That is truly amazing! Thanks again for the great service!

SFC (Ret) James Dawes
Member since 2007

AAFMAA has been part of my financial planning since I first found out about the Association more than 30 years ago. Each and every time I have come to them for advice, their insurance personnel have found the right product for the stage of my life—whether seeking coverage in case of need when my children were young, or now, as I approach my second retirement. The key is that I have always been treated as a member, not a customer, and all advice was intended to meet my needs, not a corporate bottom line. I recommend AAFMAA to all eligible personnel, and urge them to work with AAFMAA; the younger you start, the better off you will be.

Col (Ret) Daniel W. (Jake) Jacobowitz
Member since 1988

Dear Fellow AAFMAA Members,

I'm delighted to report 2007 as another year in AAFMAA's record of outstanding results.

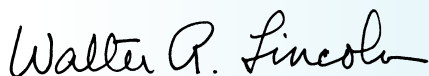
- Insurance in force grew to \$16.6 Billion; 15.3% growth!
- Policies in force increased to 108,008, with 85,059 lives insured.
- Total assets approximate \$928 Million.
- Importantly, AAFMAA membership is at a record 78,557!

These achievements illustrate AAFMAA's financial strength and ability to deliver on our most important role; assisting the survivors of our members. As the Chairman mentioned, AAFMAA was founded to aid the families of deceased members. With over 78,000 members and 85,000 lives insured, we never lose sight of this responsibility. Current members understand the value of AAFMAA. When recent legislation allowed AAFMAA to expand membership eligibility to all honorably discharged veterans in North Carolina and Virginia, we extended membership to others who have also honorably served our country.

On the investment side, AAFMAA's disciplined, prudent, relative value investment approach generated another year of outstanding performance. We carefully avoided the sub-prime mortgage issues and maintained a 5.4% Net Yield on Assets for 2007. Based on these successful results, the Board increased the Crediting Rate to 7.2% for 2008!

In addition to the \$928 Million of investment assets, AAFMAA is entrusted with two irreplaceable assets: the *TRUST* of our members and the *DEDICATION* of our employees who serve those members. I'm honored to report great results generated by great employees on behalf of great members. As we move into the future, AAFMAA will continue to provide trustworthy solutions for insurance needs and, ultimately, full-service financial planning. Thank you for your membership and thank you for trusting AAFMAA.

Sincerely,



WALTER R. LINCOLN, CFP®
MAJ, USA, Retired
President and Treasurer

MESSAGE FROM THE PRESIDENT AND TREASURER



We carefully avoided the sub-prime mortgage issues and maintained a 5.4% Net Yield on Assets for 2007. Based on these successful results, the Board increased the Crediting Rate to 7.2% for 2008!



"I have been a member of AAFMAA since my senior year at West Point... over 42 years. Over that time, I have witnessed an unparalleled level of professionalism, care and compassion from AAFMAA staff and management as it responds to the needs of service members and their families. There are a lot of companies that sell insurance; there is only one AAFMAA."

COL (RET) MO FABER, Member since 1966

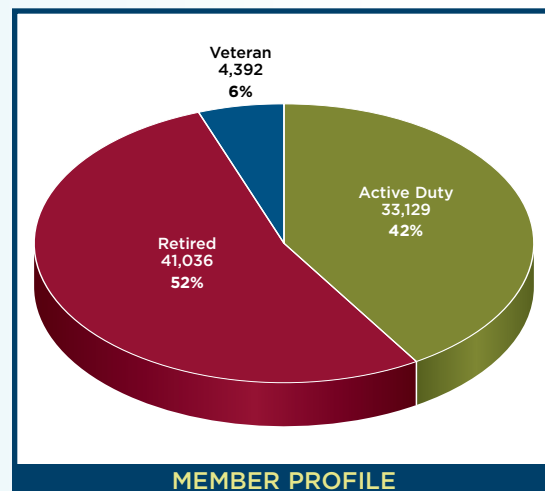
AAFMAA OVERVIEW 2007

COMPARATIVE HIGHLIGHTS

	YEAR ENDED 31 DECEMBER	
	2007	2006
Insurance in force (\$ billions)	\$16.6	\$14.4
Total reserves (\$ millions)	\$896	\$871
Number of members	78,557	75,567
Number of member deaths	917	884
Death benefits paid (\$ millions)	\$42.9	\$35.3
Net Yield on Assets	5.4%	5.4%

STATEMENT OF THE ASSOCIATION ACTUARY A.C. EDDY, INC., NORCROSS, GA

In my opinion the reserves of the Association are necessary and sufficient to provide for liabilities to its membership and will achieve the objective of distributing the Association's assets to members and/or their beneficiaries in an equitable manner.

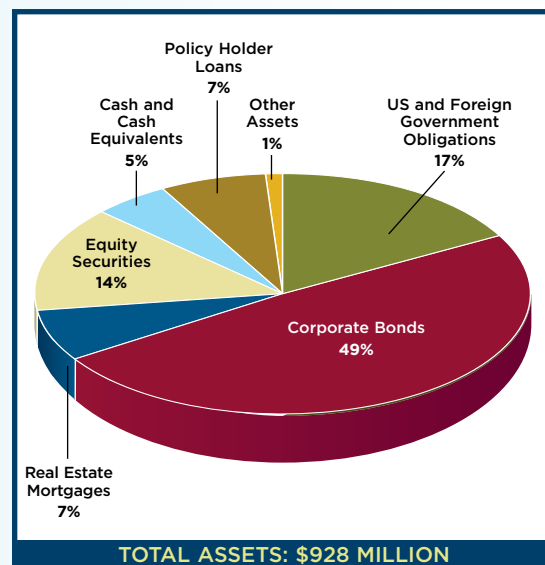


2007 ASSETS

SUMMARY OF ASSETS

SECURITIES	YEAR ENDED 31 DECEMBER	
	AMORTIZED VALUE	MARKET VALUE
U.S. and Foreign Government Obligations	\$ 157,803,507	\$ 160,432,668
Corporate Bonds	453,722,488	463,703,668
Real Estate Mortgages	62,121,087	62,121,087
Equity Securities*	133,962,422	133,962,422
Cash and Cash Equivalents	42,983,694	42,983,403
Accrued Investment Income	8,862,329	8,862,329
TOTAL SECURITIES	859,455,527	872,065,577
Policy Holder Loans	67,547,706	67,547,706
Property & Equipment Net of Accumulated Depreciation	454,772	454,772
Other Assets	331,855	331,855
TOTAL ASSETS	\$ 927,789,860	\$ 940,399,910

*Valued at market.

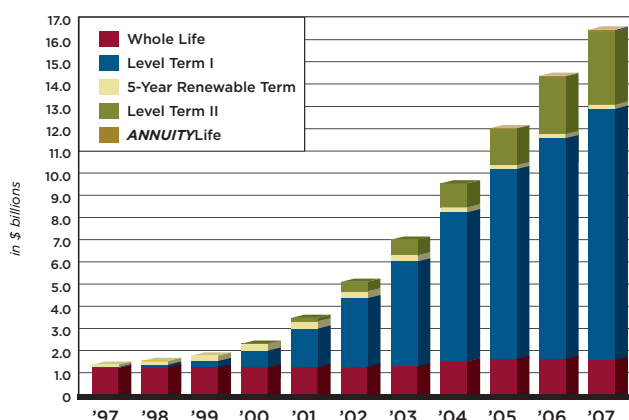


"I have been a member of AAFMAA for over thirty years. My father, a career Army officer and a member for over forty years, recommended that I join upon my entry into the ROTC program. Over the years I've added other insurance products to my portfolio but I have always considered the AAFMAA policy to be the anchor. Simply put, AAFMAA puts the interest of its members first in everything it does."

COL (RET) KENNETH M. IRISH, III, Member since 1978

INSURANCE IN FORCE

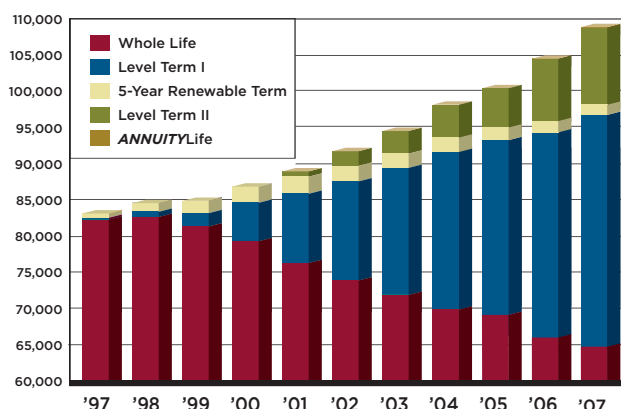
Insurance in force, beginning of year	\$14,360,836,917
Insurance sold	\$3,315,768,513
Death benefit growth	\$8,862,373
Death benefits incurred	(\$42,917,520)
Other terminations	(\$1,040,178,962)
Insurance in force, end of year	\$16,602,371,321



POLICIES IN FORCE

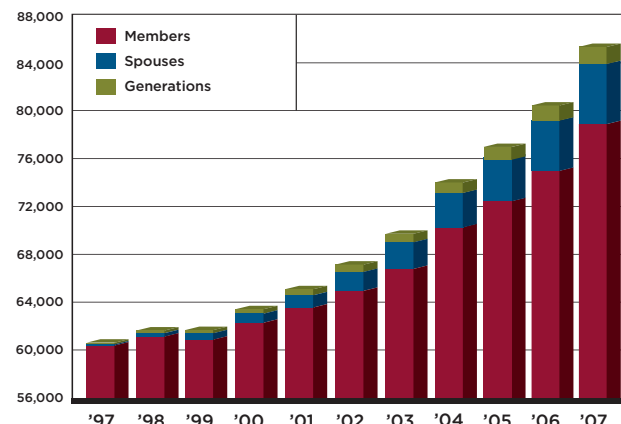
Policies in force, beginning of year	104,359
New policies issued	8,632
Policies matured by death	(1,368)
Other policy net terminations	(3,615)
Policies in force, end of year	108,008

Note: Beginning balance includes 208 Service Only (SO) policies and ending balance includes 203 SO policies.



LIVES INSURED

Members, beginning of year	75,567
Gains	6,058
Losses	(3,068)
Members, end of year	78,557
Spouses and Generations, beginning of year	5,640
Gains	1,022
Losses	(160)
Spouses and Generations, end of year	6,502
Lives insured, end of year	85,059



"When my father passed away, I found myself charged with the task of first finding and then processing the myriad of insurance claims, financial instruments, and Veterans Affairs benefits to which he and my mother were eligible. It was in this moment of need that the professionals of AAFMAA stepped in to help. Your immediate advice and assistance went a long way in allowing me to quickly and efficiently deal with my father's estate and thereby alleviate some of the stress and anguish associated with my father's death. Thank you."

LTC (RET) H. DREHER KINNEY III, Member since 1983

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

STATUTORY BASIS

For the year ended 31 December 2007

ASSETS

BONDS

U.S. and Foreign Government Obligations	\$ 157,803,507	
Corporate Bonds	<u>453,722,488</u>	
TOTAL BONDS		\$ 611,525,995

REAL ESTATE MORTGAGES 62,121,087

EQUITY SECURITIES 133,962,422

POLICY HOLDER LOANS 67,547,706

CASH AND CASH EQUIVALENTS 42,983,694

ACCRUED INVESTMENT INCOME 8,862,329

PROPERTY AND EQUIPMENT, AT COST

(less accumulated depreciation of \$1,078,631) 454,772

OTHER 331,855

TOTAL ASSETS \$ 927,789,860

LIABILITIES AND RESERVES

LIABILITIES

Death Benefits Payable	\$ 10,029,006	
Accounts Payable	14,813,446	
Deferred Revenue	1,505,850	
Settlement Options Payable	5,586,329	
Accrued Post-Retirement Benefits	<u>36,849</u>	
TOTAL LIABILITIES		\$ 31,971,480

RESERVES

Insurance and Other	\$ 669,428,272	
Interest Maintenance	38,703,335	
Contingency Reserve		
Asset Valuation	\$ 25,337,288	
War Risk	57,398,376	
General Contingency	<u>104,951,109</u>	
Total Contingency Reserve	<u>187,686,773</u>	
TOTAL RESERVES		<u>895,818,380</u>

TOTAL LIABILITIES AND RESERVES \$ 927,789,860

See Notes to Financial Statements

"We've had soldiers lose their lives in Afghanistan, and no amount of money can replace the loss of a family member, but it can solve issues like getting to stay in their home, having funds for college, or just the peace of mind that your departure did not cause financial ruin for your family. I was relieved of worrying and I had peace of mind knowing that no matter what, everybody was going to be OK."



LTC RALEIGH C. JONES, Member since 2006

STATEMENT OF INCOME AND RESERVES

STATUTORY BASIS

For the year ended 31 December 2007

INCOME

Premiums	\$ 32,589,255	
Dues	66,349	
Consideration for supplemental contracts	327,643	
Net investment income	44,767,224	
Amortization of Interest Maintenance Reserve	<u>3,176,724</u>	\$ 80,927,195

BENEFITS AND EXPENSES

Death benefit claims	\$ 42,917,520	
less war claims	<u>(5,505,000)</u>	
Net death benefit claims	\$ 37,412,520	
Surrender benefits	6,809,790	
Service Benefits	2,421,227	
Premium refunds, term insurance	891,290	
Supplemental contracts payments	516,720	
Insurance expense		
Increase in aggregate reserves for life policies	9,815,175	
Increase in reserves for supplemental contracts	250,183	
Increase in reserves for dues	32,097	
General administrative and operation expenses	<u>7,748,009</u>	<u>(65,897,011)</u>

NET INCOME BEFORE EXCESS INTEREST CREDITS

AND INVESTMENT TRANSACTIONS	15,030,184
Excess interest credited to policies	<u>(7,408,036)</u>

NET INCOME AFTER EXCESS INTEREST CREDITING

Net realized gain on investments	
(excluding Interest Maintenance Reserve gains of \$3,172,685)	<u>11,537,638</u>

NET INCOME

\$ 19,159,786

RESERVE TRANSACTIONS

INSURANCE AND OTHER RESERVES, BEGINNING OF YEAR

\$ 651,922,781

Increase in reserves for life policies	\$ 9,815,175
Increase in reserves for supplemental contracts	250,183
Increase in reserves for dues	32,097
Excess interest credited	<u>7,408,036</u>

Net change in reserves for the year

17,505,491

INSURANCE AND OTHER RESERVES, END OF YEAR

\$ 669,428,272

GENERAL CONTINGENCY RESERVE

GENERAL CONTINGENCY RESERVE, BEGINNING OF YEAR

\$ 99,864,408

Net Income	\$ 19,159,786
Increase in unrealized depreciation of equity securities	(6,823,024)
Decrease in non-admitted assets	168,093
Decrease in Asset Valuation Reserve	81,846
Increase in War Risk Reserve	<u>(7,500,000)</u>

Net change in reserves for the year

5,086,701

GENERAL CONTINGENCY RESERVE, END OF YEAR

\$ 104,951,109

See Notes to Financial Statements



"With some nostalgia I recall several cases where AAFMAA came to the rescue with their services. The most memorable was when my parents passed away in '03 and the caring, competent way your representatives walked me through the intricacies of dealing with the administrative aftermath. What more can I say...you epitomize character and competence, the foundation trust is built upon."

COL (RET) C. H. "STRETCH" DUNN, Member since 1966

STATEMENT OF CASH FLOWS

STATUTORY BASIS

For the year ended 31 December 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income		\$	19,159,786
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of Interest Maintenance Reserve	\$	(3,176,724)	
Equity (earnings)/losses in subsidiary		190,241	
Realized net gains from investments		(14,710,323)	
Realized net gains included above transferred to Interest Maintenance Reserve		3,172,685	
Amortization/accretion of bond discounts/premiums		(1,742,399)	
Net Increase in life and other reserves		12,000,492	
Depreciation		357,077	
Bad debt expense		535,230	(3,373,721)
Changes in operating assets and liabilities:			
Decrease in Accrued Investment Income	\$	597,270	
Decrease in Other Assets		447,249	
Decrease in Death Benefit Payable		(956,127)	
Decrease in Accounts Payable		(5,631,015)	
Increase in Deferred Revenue		67,457	
Increase in Settlement Options Payable		1,511,778	
Decrease in Accrued Post-Retirement Benefits		(354,319)	(4,317,707)
NET CASH PROVIDED BY OPERATING ACTIVITIES			11,468,358

CASH FLOWS FROM INVESTING ACTIVITIES

Policy Holder loans issued	\$	(26,041,928)	
Policy Holder loans repaid		21,423,408	
Securities purchased		(514,993,855)	
Securities sold/redeemed		472,021,247	
Capital Contributions to subsidiary		(50,000)	
Distribution from subsidiary		300,000	
Fixed assets purchased		(34,780)	
Non-admitted assets purchased		(205,213)	
Disposition of non-admitted assets		55,201	
NET CASH USED BY INVESTING ACTIVITIES			(47,525,920)
Decrease in Cash and Cash Equivalents			(36,057,562)
Cash and Cash Equivalents at Beginning of Year			79,041,256
CASH AND CASH EQUIVALENTS AT END OF YEAR			\$ 42,983,694

See Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

These notes summarize major accounting policies followed by AAFMAA to prepare our financial statements. The accompanying financial statements conform to statutory accounting practices. Although AAFMAA is not subject to insurance regulation, these financial statements conform to accounting practices used by insurance companies for regulatory reporting purposes. Such accounting practices, referred to as prescribed or permitted practices, are a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Because a major objective of regulatory authorities is to protect the interests of policyholders, statutory accounting practices are oriented toward demonstrating the solvency of insurance companies and their ability to pay policyholder claims. Management believes statutory accounting practices more conservatively measure AAFMAA's financial position and results of operations. The more significant categories of differences between statutory accounting practices and GAAP are summarized below:

- Valuation of investments in bonds
- Accounting for the costs of acquiring new business
- Calculation of certain reserves for policy contract benefits
- Designation of certain assets as "non-admitted" under statutory accounting practices
- Accounting for investment in subsidiaries
- Recording of an Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR)

Cash and Cash Equivalents

Cash includes currency on hand and demand deposits with banks or other financial institutions. Cash equivalents are short-term highly liquid investments with original maturities of three months or less.

Investments

Investments are reported according to prescribed valuation procedures in accordance with the National Association of Insurance Commissioners (NAIC). Equities are reported at fair market value. Investments in bonds are reported at amortized cost.

Real estate mortgages, policy loans and Career Assistance Program (CAP) loans (reflected as Policy Holder Loans on the Statement of Assets, Liabilities and Reserves) are reported at unpaid principal balances, or cost. The carrying values of loans are periodically evaluated and adjusted for any perceived impairment in value.

Interest on bonds is recorded as investment income when earned and adjusted for any amortization of premium or accretion of discount. Dividends are recorded as income when earned. Interest income from mortgage loans is recorded when earned, except on loans in foreclosure or where collection is uncertain. CAP loans are non-collateralized. CAP loans of approximately \$661,150 were written off due to non-performance during the year. This number represents about 1.8% of total CAP loans outstanding as of year-end.

Realized gains and losses on sales of investment securities are included in the Statement of Income and Reserves, except as noted in the Interest Maintenance Reserve section below. Unrealized gains and losses are included in the Contingency Reserves in the Statement of Assets, Liabilities and Reserves.

The Summary of Assets shows the amortized value and market value of each category of securities held by AAFMAA. Mortgages are private placements for which quoted market values are not available. For mortgages and policy holder loans, cost is used as the market value. Equity securities are reported at cost of \$150,744,351 less unrealized losses of \$16,781,929.

AAFMAA originates fixed rate commercial real estate mortgages. The loans are first lien mortgages on income producing properties with loan to value ratios of 75% or less. They have characteristics similar to conventional single-family home mortgage loans. If repaid early, there is an additional Prepayment Premium due. The Prepayment Premium is usually a percentage of the outstanding principal balance corresponding to the years left between the prepayment date and the final maturity of the loan.

AAFMAA has one wholly-owned limited liability company subsidiary: Starco Properties Holding LLC. Starco Properties Holding LLC wholly-owns nine subsidiary LLCs, all of which were formed to own and operate commercial real properties (the Starco Properties Portfolio). On 1 December 2006, AAFMAA sold the Starco Properties Portfolio, including two real properties under construction at the time of the sale. The remaining items are expected to be completed during the first half of 2008. AAFMAA's total investment in subsidiaries represents \$104,159 of cash and receivables, net of payables for legal and other expenses. AAFMAA intends to close the individual LLCs once certain liabilities and assets associated with its past ownership of the commercial real properties are resolved.

Property and Depreciation

Under statutory accounting practices, the book values (cost less accumulated depreciation) of certain office equipment, furniture and application software are considered "non-admitted assets". These assets are accorded no value. As non-admitted assets, they reduce the amount in the General Contingency Reserve by the amount of their book value. As of 31 December 2007, \$1,566,299 of assets (net of depreciation) considered non-admitted reduced the General Contingency Reserve. The building, land improvements and certain other equipment (admitted assets) are being depreciated on a monthly basis. Total depreciation for the year was \$357,077.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Actuarial Reserves

Actuarial reserves for all policies are equal to the sum of the individual benefit plan accumulation values but not less than the minimum cash value for each policy. AAFMAA held certain additional reserves at 31 December 2007 such that the sum of accumulation values and these additional reserves were equal to or greater than minimum reserves for such policies as prescribed by the NAIC for regulated insurers. Excess interest credits, as reflected in the Statement of Income and Reserves, equaled the amount credited to cash value accounts in excess of statutory minimums.

Interest Maintenance Reserve (IMR)/ Asset Valuation Reserve (AVR)

An IMR is maintained based upon a formula prescribed by the NAIC for the purpose of capturing the realized gains and losses resulting from changes in the overall level of interest rates. These realized gains and losses are amortized into income over the approximate remaining life of the investments had they not been sold. An AVR is maintained based upon a formula prescribed by the NAIC for the purpose of providing for default and equity risks related to AAFMAA's invested assets.

Concentration of Credit Risk

AAFMAA has a concentration risk. All of its real estate mortgages are in the Washington, DC metropolitan area. AAFMAA maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. In addition, AAFMAA maintains various accounts, containing securities and cash, in trust with a large bank custodian. These accounts are uninsured.

Income Taxes

AAFMAA is a tax-exempt, non-profit association as described in section 501(c)(23) of the Internal Revenue Code.

2. NATURE OF BUSINESS

AAFMAA was formed in 1879. It provides life insurance benefits and Survivor Assistance Services. Members consist of active, retired, reserve, and guard, officers, warrant officers, non-commissioned officers and soldiers and airmen of the US Army and US Air Force, cadets serving at the US Military Academy and US Air Force Academy, cadets with ROTC scholarships/contracts and effective 1 January 2008, honorably discharged veterans in Virginia and North Carolina. AAFMAA also offers insurance to the spouses, children and grandchildren of members. Spouses, children and grandchildren are NOT members unless qualified as such in their own right. AAFMAA provides interest-sensitive whole life and term life insurance and Survivor Assistance Services.

3. RELATED-PARTY TRANSACTIONS

Armed Forces Services Corporation (AFSC) was created 1 July 2000 to provide Living Services and Survivor Assistance Services under contract to AAFMAA. For the year ending 31 December 2007, AAFMAA incurred servicing expenses of \$2,421,227.

4. EMPLOYEE BENEFITS***Retirement Plan***

AAFMAA has a 401(k) and profit-sharing plan that covers all employees who meet certain minimum eligibility requirements. AAFMAA may contribute as a matching contribution up to 6% of employee compensation. In addition, AAFMAA may contribute an amount equal to 4% of compensation. The total retirement plan expense for the year ended 31 December 2007 was \$593,104, which includes \$294,876 of employees' elective deferrals.

Life Insurance

AAFMAA self-insures each employee for \$50,000 after one year of employment. Employees may obtain additional life insurance coverage with AAFMAA at their own expense if they qualify. Employees are NOT members of AAFMAA unless qualified as such in their own right.

5. POST-RETIREMENT BENEFITS

All retiree benefits have been eliminated except for those retirees and/or surviving spouses of retirees previously covered under the retiree health care plan. There are currently four retirees covered under the retiree health care plan until death. Retiree health care plan costs to AAFMAA in 2007 were \$2,713. The retiree health care plan costs AAFMAA 40% of premiums or a fixed monthly amount for select retirees; the retiree contributes 60%. The projected, cumulative obligations are \$36,849.

6. COMMITMENTS

AAFMAA has committed \$2,440,927 to AFSC to provide services to AAFMAA's members for 2008.

7. LAND LEASE

In December 1998, AAFMAA entered into a 30-year agreement with the Department of the Army to lease the land upon which AAFMAA's building is located at Fort Myer, VA. The current year annual lease payment is \$13,441, which is subject to change based on an evaluation of fair market rental value to be performed every five years.

TO THE BOARD OF DIRECTORS, ARMY AND AIR FORCE MUTUAL AID ASSOCIATION

We have audited the accompanying statutory basis statements of assets, liabilities and reserves of Army and Air Force Mutual Aid Association as of December 31, 2007, and the related statutory basis statements of income and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the National Association of Insurance Commissioners, which practices differ from generally accepted accounting principles (GAAP). The effects on the financial statements of the variances between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present, and are not intended to present in conformity with GAAP, the financial position of Army and Air Force Mutual Aid Association as of December 31, 2007, or the results of its operations or its cash flows for the year then ended.

In our opinion, the statutory basis financial statements referred to above do present fairly, in all material respects, the financial position of Army and Air Force Mutual Aid Association as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (Summary of Assets - 31 December 2007) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BERLIN, RAMOS & COMPANY, P.A.

March 20, 2008

A Tradition of Protecting Army and Air Force Members and Families for 129 Years



AAFMAA was established in 1879 by military members for military members to aid the families of deceased soldiers with their final expenses. AAFMAA always puts the members' best interests first, from the purchase of the first policy to the final payout of the death benefit.

Who can be a member? All ranks of Army and Air Force, who are active duty (or within 120 days after separation), retired, National Guard and Reserve below the age of 66, USMA and USAFA cadets, and ROTC contract and scholarship cadets are eligible for membership. Additionally, thanks to recently enacted legislation, honorably discharged veterans below age 66, residing in North Carolina or Virginia are eligible.

My husband Scott flew the AH64 Apache for the 8/229th. He was stationed out of Ft. Knox. He loved flying more than anything! He was just like a child when telling someone exactly what that machine could actually do! Terrible events in our lives such as sickness and death are things that happen to other people...not our family. But it did! I do not remember much about that time, just that some officials, all friends, came to our home and my Scott was gone!

Thank God that Scott was always aware, especially since being called back to active duty to deploy to Iraq, of the importance of having insurance. Our future, especially that of our children, was always a concern for us. AAFMAA was very helpful and quickly provided us with what we needed. If I remember correctly my brother handled most of the work for me, but there really wasn't that much. It was such a relief to not have to worry about finances during such a terrible and heartbreaking time in our lives. I am not sure what my children and I would have done without it. No one ever wants to plan for tragedy, but my family learned first-hand that it is so worth it to plan and prepare to take care of your family and loved ones just in case! Thank you again.

Tracy Lathram

Insured since 2004
Widow of Member



AAFMAA'S SURVIVOR ASSISTANCE SERVICES

At the heart of our 129 year tradition "to aid the families of the deceased members in a prompt, simple, and substantial manner," and included with every member's policy, are AAFMAA's Survivor Assistance Services.

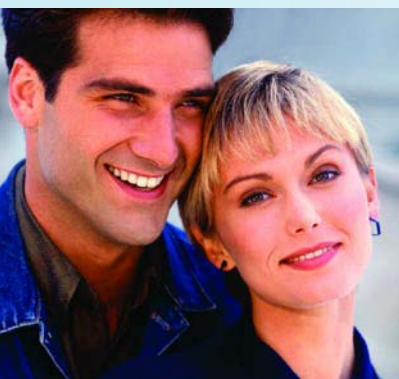
These include:

- Expeditious payment of the death benefit
- Claims initiation, plus continuous follow-up
- Claims representation, plus follow-up in disputes
- Lifetime individualized benefit notification
- Social Security notification
- Financial Awareness Service
- Annual statement of spouse entitlements

"Over the years, I have appreciated the great service AAFMAA provides. On many occasions I have called for information and have never failed to receive solid information rendered in a helpful and friendly fashion. Additionally, I have especially appreciated the life insurance opportunities that are available. I congratulate the leadership and staff of AAFMAA for their great work in supporting military families."

CH (COL) SCOTT McCHRYSTAL, USA (RET), Member since 1988

AAFMAA PRODUCTS



LEVEL TERM I

Inexpensive term life insurance designed for active duty members and spouses. A great low-cost supplement or alternative to SGLI.

- Level premium and death benefit to age 50 (40 for nicotine users)
- Annual partial premium refunds for non-nicotine users, NOT guaranteed but paid since inception
- Save up to 41 % over SGLI
- Up to \$10,000 coverage, at no additional cost, for eligible children with member's policy
- Same low rates for member and spouse
- Children and grandchildren ages 18–23 are also eligible to purchase coverage up to \$800,000

Compare these rates before you decide.

COVERAGE	AAFMAA*	AFTER REFUND*	SGLI**
\$ 100,000	\$ 5.90	\$ 5.90	\$ 7.00
\$ 250,000	\$ 13.00	\$ 11.70	\$ 17.50
\$400,000	\$ 19.00	\$ 17.10	\$ 28.00
\$600,000	\$ 27.00	\$ 24.30	N/A
\$800,000	\$ 35.00	\$ 31.50	N/A

*Monthly rates. Non-nicotine users receive 10% annual premium refund on policies over \$100,000, NOT guaranteed and subject to change. \$5.90 is non-nicotine rate.

**Premium shown does not include \$1.00 charge for TSGLI. Subject to complete terms and conditions of the policy.



LEVEL TERM II

One of AAFMAA's most flexible, cost effective types of coverage designed for members and spouses with short and long term needs. A great alternative to VGLI.

- You pick the coverage amount (\$50,000 to \$800,000) and term (5 to 30 years)
- Coverage can last up to age 85
- Low-cost rates
- Rate NEVER increases/death benefit NEVER decreases for the life of the policy
- Must be purchased before age 76

20 Year Level Term II, Non-nicotine user, Super Select* monthly rate

ISSUE AGE	COVERAGE AMOUNT					
	\$100,000		\$400,000		\$600,000	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
45	\$ 14.00	\$ 12.10	\$ 41.00	\$ 33.40	\$ 59.00	\$ 47.60
50	\$ 19.70	\$ 15.50	\$ 63.80	\$ 47.00	\$ 93.20	\$ 68.00
55	\$ 28.00	\$ 22.60	\$ 97.00	\$ 75.40	\$ 143.00	\$ 110.60
60	\$ 44.60	\$ 33.60	\$ 163.40	\$ 119.40	\$ 242.60	\$ 176.60

*This is our BEST RATE CLASS. Rates may be higher depending on individual health and lifestyle.

Subject to complete terms and conditions of the policy.

Call AAFMAA Direct Toll-Free, 1-877-398-2263 for more information

"Insurance is about more than just peace of mind; it's about a reliable partnership to assure the welfare of your family in the event that you no longer can. I took out three policies with AAFMAA; they delivered precisely as advertised. Thanks AAFMAA!"



C. M., Member since 2007



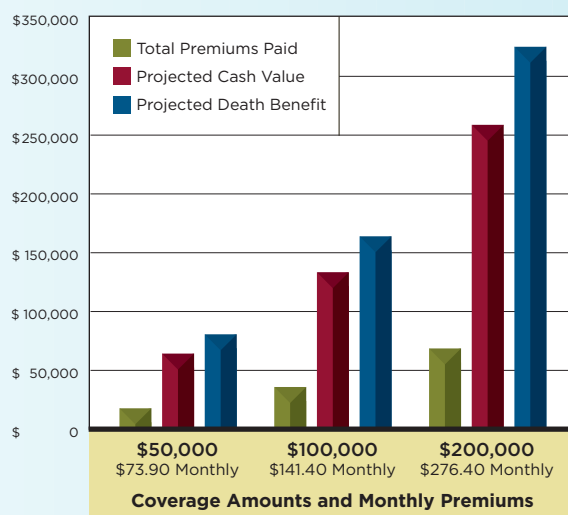
VALUE-ADDED WHOLE LIFE

The protection of permanent insurance, plus the cash value growth of interest sensitive life insurance.

- 100% money back guarantee for life (total premiums paid or cash value, whichever is GREATER)
- Premiums guaranteed to NEVER increase
- Borrow up to 75% of the cash value at 1% above the current crediting rate
- Great crediting rate (7.2% for 2008 — NOT guaranteed, subject to change.) Guaranteed 4.5%
- Long Term Care Settlement Option included with policy (restrictions apply)
- Flexible payments — Single Payment, 7, 20, 30 years, or Pay to age 100
- Can be purchased through age 79 for members and spouses, and through age 23 for children and grandchildren

VALUE-ADDED WHOLE LIFE 35 YEAR PROJECTION

Issued at age 45, premiums paid monthly for 20 years, projected crediting rate of 7.2%, NOT guaranteed and subject to change.



Subject to complete terms and conditions of the policy.

All AAFMAA Policies Offer These Valuable Features:

- NO war clause, NO aviation clause, NO terrorist clause
- Can continue after separation or retirement from the military
- Survivor Assistance Services included with every member's policy
- No coverage limitations based upon rank or deployment status
- Coverage available up to \$800,000

ANNUITYLIFE

The benefits of Value-Added Whole Life with minimal underwriting, regardless of age, sex or nicotine use.



- Minimal medical underwriting—only three questions
- Requires payment of single premium
- Option to annuitize the cash value immediately, at a later date, or never
- If annuitized, guaranteed payments to age 100 at 4%, with an annual "bonus" check if Net Yield on Assets exceeds 4%
- Can be purchased up to age 99



*Insurance from a name you can trust... **AAFMAA***

STABILITY • REPUTATION • LOW COST • SINCE 1879

102 Sheridan Avenue • Ft Myer, VA 22211-1110
 Toll Free: 1-800-522-5221 • Local: 703-522-3060 • Fax: 703-522-1336
 E-mail: info@aafmaa.com • Web Site: www.aafmaa.com
 Main Office Hours: 8:30 am – 4:30 pm • Monday – Friday

Membership and Insurance Sales Telephone Hours until 7:00 pm at 1-877-398-2263

The name "Army and Air Force Mutual Aid Association", our seal, "AAFMAA", and our tagline "Insurance from a name you can trust" are registered trademarks with the U.S. Patent and Trademark Office and may not be used without express permission of AAFMAA.



Please send me complete information and an application for the insurance policies checked below:

MEMBER SPOUSE

☐ ☐

LEVEL TERM I:

Save up to 41% over SGLI. Level coverage continues to age 50 (40 for nicotine users). Coverage to \$800,000.

☐ ☐

LEVEL TERM II:

Save up to 75% over VGLI. Ideal for maturing families and retirees—short and long term coverage can last to age 85. Coverage to \$800,000.

☐ ☐

VALUE-ADDED WHOLE LIFE:

Permanent insurance with guaranteed cash value and death benefit. Attractive crediting rate. Long Term Care Settlement Option. Fixed premiums.

☐ ☐

ANNUITYLIFE:

Permanent insurance with option to annuitize cash value immediately. Minimal medical underwriting. Single Payments only. Designed for older insureds.

CHILD GRANDCHILD

☐ ☐

GENERATIONS COVERAGE:

Value-Added Whole Life for children/grandchildren ages 6 months – 23 years, up to \$800,000 each.

☐ ☐

LEVEL TERM I:

Term insurance for children/grandchildren ages 18-23. Can continue to age 50 (40 for nicotine users). Coverage up to \$800,000.

COVERAGE DESIRED:

Member: \$ _____ DOB: _____
(mm/dd/yy)

Spouse: \$ _____ DOB: _____
(mm/dd/yy)

Child/Grandchild \$ _____ DOB: _____
(mm/dd/yy)

Child/Grandchild \$ _____ DOB: _____
(mm/dd/yy)

PERSONAL INFORMATION:

NICOTINE USE:

(last 12 months) **YOU:** ☐ Yes ☐ No **SPOUSE:** ☐ Yes ☐ No

Check all that apply

☐ Army or
☐ Air Force

☐ Active or
☐ Retired

☐ Guard
☐ Reserve

☐ Veteran (NC and VA residents only)

NAME: _____

RANK: _____

MEMBER # (IF APPLICABLE) _____

SPOUSE'S NAME: _____

CHILD/GRANDCHILD'S NAME: _____

CHILD/GRANDCHILD'S NAME: _____

MAILING ADDRESS: _____

CITY, STATE, ZIP: _____

EMAIL: _____

PHONE: (recommended) _____ ☐ Day ☐ Evening

CALL AAFMAA DIRECT: toll-free 1-877-398-2263.

www.aafmaa.com



BUSINESS REPLY MAIL

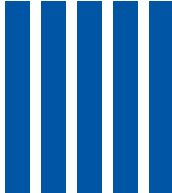
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STABILITY • REPUTATION • LOW COST • SINCE 1879

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