



2010 ANNUAL REPORT

AAFMAA Board of Directors

(as of 31 December 2010)

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*



William J. Lennox, Jr.
LTG, USA, Retired

Chairman, Membership Committee



Walter R. Lincoln, CFP®
MAJ, USA, Retired

President and Treasurer

Senior Management

Walter R. Lincoln, CFP®
President and Treasurer

Tiana Fallavollita
Assistant to the President

Lisa G. Milman
Vice President for Marketing and Sales

Brady M. Gruler, FLMI
Vice President for Insurance

Tom E. Hargis
Secretary and Controller

Florence B. (Maggie) Wilson, CPA
Chief Financial Advisor

James M. Malley, CPA
Executive Vice President and
Chief Operating Officer
AAFMAA Financial Advisors LLC

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

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, III
CSM, USA, Retired



Lewis E. Monroe
CMSgt, USAF, Retired

Finance Committee



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



Dennis D. Porter
COL, USA, Retired



John T. Ridge
CMSgt, USAF, Retired

AAFMAA has been serving me for over 25 years. I have never had a single complaint or issue with them. They are one of the best and most *trusted* organizations I know of.

MAJ Timothy H., member since 1984



Message from the Chairman

Soldiers, airmen and their families rely on AAFMAA for low-cost, high quality life insurance coverage and unparalleled Survivor Assistance Services. Our tradition of caring for widows and widowers is at the heart of what makes AAFMAA truly unique. Over the past decade our growth has been unmatched in the 132 year history of the Association. I have been thrilled to be a participant as a Board Member since 1992 and Chairman of the Board for the last four years. Membership, insurance in force and policies in force all reached record highs in 2010. AAFMAA is thriving thanks to a loyal membership, great insurance products, advisory services for members and Survivor Assistance Services for members' widows(ers).

AAFMAA always focuses on providing the lowest cost life insurance possible and outstanding services to the members and their survivors. To reinforce our ability to provide Living Services to members and Survivor Assistance to widow(ers), on 1 July 2010, AAFMAA Financial Advisors opened its doors and started performing these services for members and survivors. This opportunity for AAFMAA to remain connected with the families of members has been a tremendous success and allows the relationships built with members throughout the years to continue for generations.

In 2000 we launched a long-term plan to revitalize what was already great and implemented new products and services to provide additional benefits for members. We will continue to grow and expand. Please remember that as a pure non-profit, member-owned Association all the proceeds of AAFMAA accrue to the benefit of the members and policy holders in one way or another. Please see the Message from the President and Treasurer for more details about our longer term results and details for 2010.

Your Board of Directors serves without any compensation. They serve you and are committed to making AAFMAA a success for all members. With their vision and the staff's dedication, AAFMAA will continue caring for our military members and survivors.

Respectfully,

A handwritten signature in black ink that reads "Donald M. Babers". The signature is fluid and cursive, with a large initial 'D'.

DONALD M. BABERS
Lieutenant General, USA, Retired
Chairman, Board of Directors



Message from the President and Treasurer

Dear Fellow AAFMAA Members:

In 2000 we implemented a strategy to elevate AAFMAA for the new century. A central tenet of the strategy focused on three imperatives: Sell more, control costs, and invest wisely! It's now time to look back and see: *How have we done?* The simple answer is: *Beyond expectations.* Let me review a few metrics, all from 1 Jan 2000 to 31 Dec 2010 and, where appropriate, adjusted for inflation for an apples-to-apples comparison.



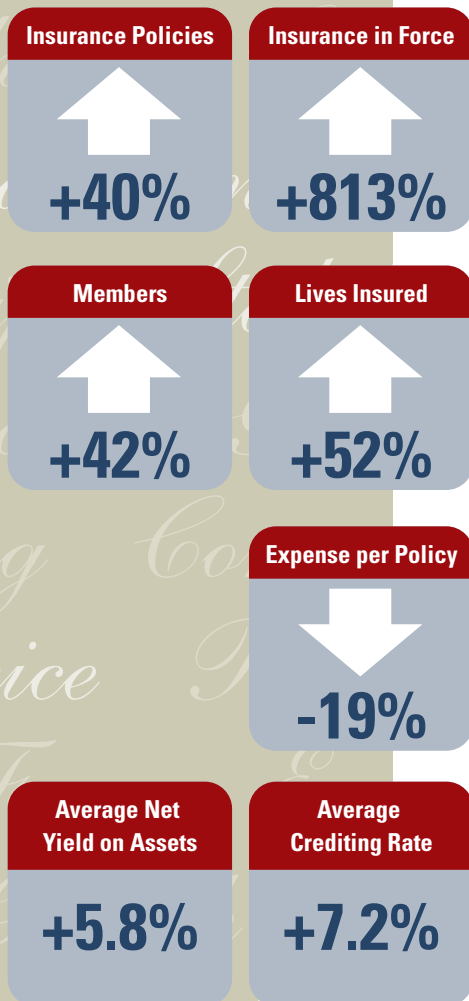
To be a relevant, growing membership organization we needed compelling low-cost life insurance products to attract new members leading to new sales and additional sales to existing members. By introducing more types of policies with higher coverage amounts our insurance metrics have been phenomenal.

By selling extremely low-cost, great policies our membership growth has reversed the previous stagnation and has grown every year. And, by allowing family members to own policies we've reduced risk by increasing the number and diversity of lives insured.

However, growth only benefits existing members if we control the costs of growth in such a way as to reduce expense per policy for all policies. With growth, general administrative and operation expenses inevitably rise but do they rise or fall *per policy*? We've achieved huge growth and controlled costs. Through automation and spreading costs over a greater base of policies, all members and policy holders have benefitted. Expense per policy has actually declined.

Now, how have we done on investing? Recall that this period covers the Dotcom Crash, Enron, the Derivatives Debacle, plus the Financial Crisis of '07-'09. Admittedly, a challenging period. But challenging periods allow us to demonstrate our abilities by delivering outstanding results in spite of those challenges. The Net Yield on Assets (NYA) allows us to support our great Crediting Rate (CR) as well as the 4% guarantee to annuitants. Please recall that widows(ers) can benefit from the guarantee through monthly annuity checks and then receive a 13th check based upon the amount that the NYA exceeds the guaranteed rate. Again, how have we done for our average NYA and average CR during the period?

Looking at the results specifically for 2010 we see another year of growth and success for AAFMAA. While some companies and associations experienced losses in membership and sales, AAFMAA achieved strong growth in every metric: insurance in force, policies in force, lives insured and membership. Life



insurance sales exceeded **\$2.9 billion**. Insurance in force increased **8.2% to \$22.8 billion**. Policies in force increased by almost **3%** to an all time high of 119,517 and total lives insured reached 96,956; **3.7% growth**. Membership grew by a *net* 2,575 members, a **3%** increase.

In addition to strong sales, investment performance further evidences our success. By adhering to strict investment guidelines, AAFMAA continues to succeed even in turbulent times. The Net Yield on Assets for 2010 was **4.9%** vs 4.6% in 2009. Total admitted assets, on an amortized value basis, grew to over **\$950 million**, a **\$29 million increase** over 2009.

Remember, as a non-profit Association, AAFMAA's successes directly benefit you. Over **\$63 million returned** to members, policy holders, and their beneficiaries in 2010. Cash value increases \$11.7M, death benefit claims \$48.0M, term insurance partial premium refunds \$1.1M, services and Survivor Assistance Services \$2.4M.

The success in 2010 maintains a great crediting rate; 7% for 2011 on Value-Added Whole Life policies. If you like the stability and reliability of a cash value insurance product consider Value-Added Whole Life or **ANNUITY**Life. These products can build security for you, your children, and your grandchildren.

By selling more, controlling costs and investing wisely, AAFMAA expanded in 2010 and grew even stronger. In 2010 we launched two subsidiaries. Both have exceeded expectations in service to the members and in profitability.



AAFMAA Property LLC holds the property in Reston, Virginia. Future real estate property investments will be structured as subsidiary LLCs under AAFMAA Property to minimize liabilities for real estate investments.

The Reston property provides a location for services to members, spouses and survivors. The focal point for services is the 1899 Manor House while the office building provides consolidated space for insurance operations. Also, we now have space to expand as AAFMAA continues to grow. The Reston office also provides redundancy in the event that a national emergency would temporarily interrupt operations at Ft. Myer. AAFMAA will always render its historical, unique survivor services especially during a national emergency. Ft. Myer continues as our official headquarters. Members can receive all the great services from the staff at either Ft. Myer or Reston.

The financial results for AAFMAA Property reflect the initial vacancy during the renovation. Space excess to AAFMAA needs has been leased with staggered lease termination dates which will allow expansion for AAFMAA to grow. In the meantime, lease payments from tenants reduce carrying costs. As of 31 Dec 2010 100% of the space is leased and occupied. Through 31 Dec 2010 Net Operating Income totaled \$366,267. After depreciation and amortization (non-cash expenses) of \$356,184, Net Income was \$10,083.



AAFMAA Financial Advisors LLC provides Living Services to members, Survivor Assistance Services to members' survivors and to survivors of active duty deaths funded by subscriptions paid for by Army Emergency Relief, Coast Guard Mutual Assistance, and Air Force Aid Society. Through the relief societies we provided our unique Survivor Assistance Services to 125 surviving spouses of service members killed on active duty. During 2010 we assisted in obtaining all entitlements for 480 widows(ers) and provide continued lifetime assistance for approximately 11,700.

As AAFMAA expands, members will continue to obtain unrivaled services provided by AAFMAA Financial Advisors at every location. Jim Malley, COO of Financial Advisors, and his outstanding team will offer great services at more and more bases/posts. In the first 6 months of operations AAFMAA Financial Advisors has paid back 100% of the start-up costs, plus saved AAFMAA 18% over the costs previously being paid to an outsourced provider. Through 31 Dec 2010 Net Income totaled \$226,896. Expanded services plus savings...that's better for every member and survivor.

What's on the horizon for new initiatives? We'll expand the number of locations to better serve members on a face-to-face basis and we'll expand the menu of services available. But before doing so we always validate the need for expansion. Then, we must undertake only those initiatives which are:

- Consistent with our strategic plan,
- Economically supportable, and
- Within the capabilities of management and staff to implement properly

AAFMAA exists for the members and will expand to better serve the members. Remember, as a pure non-profit, member-owned Association every subsidiary must meet these criteria.

Our continuing success relies upon two important factors: trust of the members and dedication of the staff. Without the trust of the members and the excellence of the staff, AAFMAA would not be the association it is today. Throughout this report, you will notice comments from members. Certain of their words are highlighted within their comments and throughout the cover and pages. These are the comments, ideas and values that guide AAFMAA. Serving members is our number one priority. Building relationships. Showing compassion to survivors of deceased members. A commitment to provide peace of mind to members and survivors alike. Our tradition of focusing on these values allows AAFMAA to remain the calm in the storm, the premier provider of insurance and services for members and their families, and the reliable, respected and trusted choice. Thank you for your membership.

Sincerely,

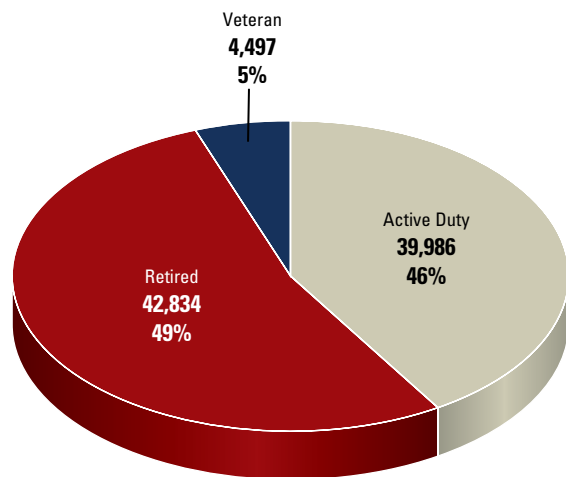
A handwritten signature in black ink that reads "Walter R. Lincoln".

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

*I just wanted to let you know I've been working with Lauren since I joined AAFMAA. She is simply fantastic. Very warm, **friendly**, **compassionate**, knowledgeable and helpful. She remembers who I am when I call. I would be unlikely to go anywhere else because of her time and attention to my cases and her responsiveness to my needs. I'll make AAFMAA my home for insurance needs.*

Elizabeth M, widow and insured since 2008

AAFMAA Overview 2010



Member Profile

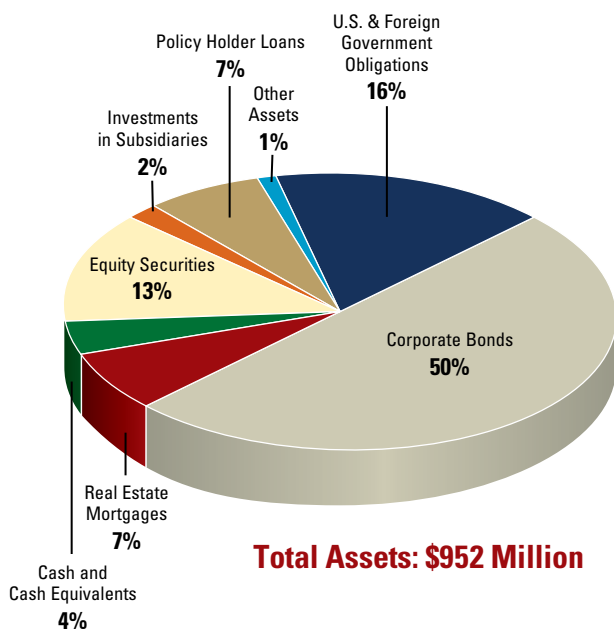
Comparative Highlights

	Year ended 31 December	
	2010	2009
Insurance in force (\$ billions)	\$22.8	\$21.1
Total reserves (\$ millions)	\$915	\$884
Number of members	87,317	84,742
Number of member deaths	906	880
Death benefits paid (\$ millions)	\$48.0	\$42.5
Net Yield on Assets	4.9%	4.6%

STATEMENT OF THE ASSOCIATION'S CONSULTING ACTUARY EDDY SQUARED, LLC, GREENSBORO, NC

In my opinion the reserves of the Association are necessary and sufficient to provide for all current 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.

2010 Assets



Summary of Assets

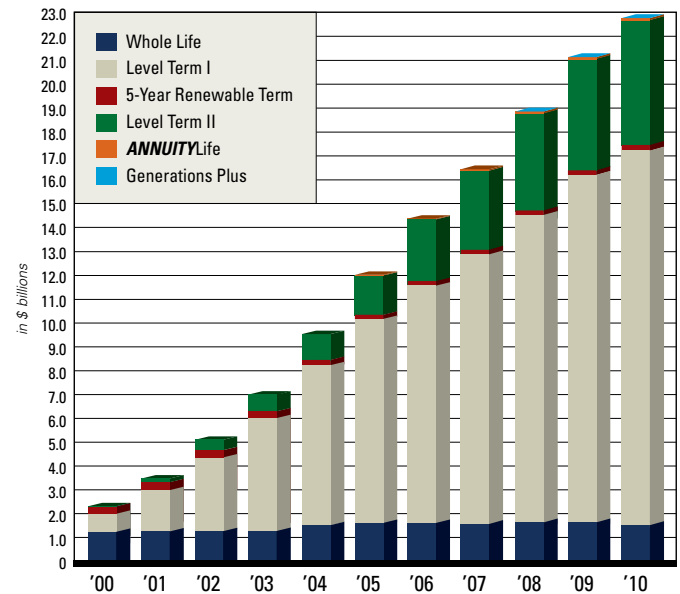
	Year ended 31 December	
INVESTMENTS	ADMITTED ASSET VALUE	MARKET VALUE
U.S. & Foreign Government Obligations	\$ 152,122,159	\$ 154,271,272
Corporate Bonds	472,924,920	515,152,323
Real Estate Mortgages	70,460,705	70,460,705
Cash and Cash Equivalents	34,203,667	34,203,667
Equity Securities*	121,821,491	121,821,491
Investment in Subsidiaries	22,686,160	22,686,160
Accrued Investment Income	10,208,667	10,208,667
TOTAL INVESTMENTS	884,427,769	928,804,285
Policy Holder Loans	65,256,287	65,256,287
Property & Equipment Net of Accumulated Depreciation	985,991	985,991
Other Assets	839,366	839,368
TOTAL ASSETS	\$ 951,509,413	\$ 995,885,931

*Valued at market

Insurance in Force

Insurance in force, beginning of year	\$21,103,892,306
Insurance sold	\$2,921,907,092
Death benefit growth	\$8,920,861
Death benefits incurred	(\$47,986,015)
Other terminations	(\$1,145,302,916)

**INSURANCE IN FORCE,
END OF YEAR \$22,841,431,328**

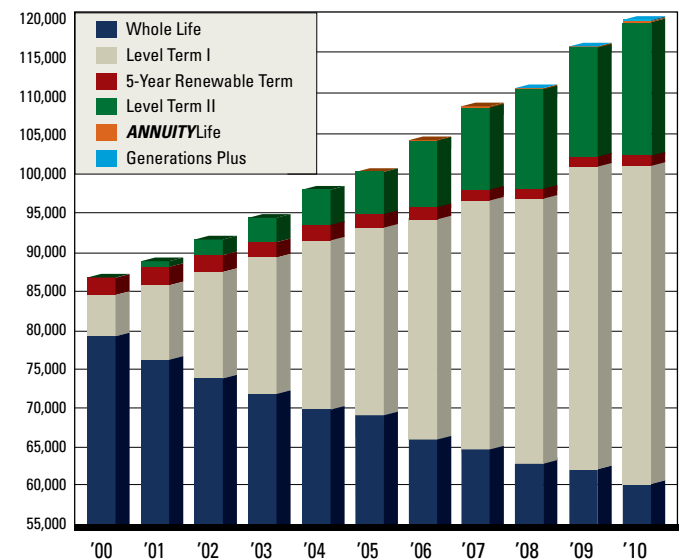


Policies in Force

Policies in force, beginning of year	116,192
New policies issued	7,933
Policies matured by death	(1,356)
Other policy net terminations	(3,252)

POLICIES IN FORCE, END OF YEAR 119,517

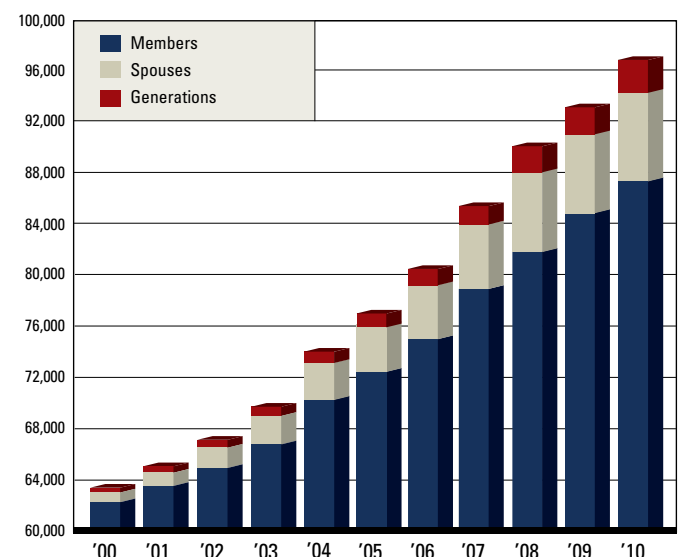
Note: Beginning balance includes 188 Service Only (SO) policies and ending balance includes 176 SO policies.



Lives Insured

Members, beginning of year	84,742
Gains	5,510
Losses	(2,935)
Members, end of year	87,317
Spouses and Generations, beginning of year	8,774
Gains	1,091
Losses	(226)
Spouses and Generations, end of year	9,639

LIVES INSURED, END OF YEAR 96,956



*I am so grateful for you and AAFMAA– thank you for all that you and AAFMAA do for Soldiers and families. With utmost **respect**.*

LTC John M, member since 1992

Statement of Assets, Liabilities and Reserves

STATUTORY BASIS

31 DECEMBER 2010

Assets

BONDS

U.S. and Foreign Government Obligations	\$ 152,122,159	
Corporate Bonds	<u>472,924,920</u>	
Total Bonds		\$ 625,047,079

REAL ESTATE MORTGAGES 70,460,705

EQUITY SECURITIES 121,821,491

INVESTMENT IN SUBSIDIARIES 22,686,160

POLICY HOLDER LOANS 65,256,287

CASH AND CASH EQUIVALENTS 34,203,667

ACCRUED INVESTMENT INCOME 10,208,667

PROPERTY AND EQUIPMENT, AT COST (less accumulated depreciation of \$1,212,923) 985,991

RELATED PARTY RECEIVABLE 148,119

OTHER 691,247

TOTAL ASSETS \$ 951,509,413

Liabilities and Reserves

LIABILITIES

Death Benefits Payable	\$ 15,415,809	
Accounts Payable	7,370,394	
Deferred Revenue	1,650,192	
Settlement Options Payable	12,653,766	
Accrued Post-Retirement Benefits	22,983	
Related Party Payable	<u>295,011</u>	
TOTAL LIABILITIES		\$ 37,408,155

RESERVES

Insurance and Other	\$ 736,915,832	
War Risk	37,561,720	
Interest Maintenance	38,938,088	
Contingency Reserve		
Asset Valuation	\$ 26,477,645	
General Contingency	<u>74,207,973</u>	
Total Contingency Reserve	<u>100,685,618</u>	
TOTAL RESERVES		914,101,258

TOTAL LIABILITIES AND RESERVES \$ 951,509,413

See Notes to Financial Statements

Thanks for the timely information. You have a great reputation and it's good to know that you continue an honest *commitment* to us.

COL Frank W, member since 1973

Statement of Income and Reserves

STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2010

Income

Premiums	\$	41,359,931	
Dues		48,264	
Consideration for supplemental contracts		493,453	
Net investment income		40,182,019	
Amortization of Interest Maintenance Reserve		<u>4,293,947</u>	\$ 86,377,614

BENEFITS AND EXPENSES

Death benefit claims	\$	47,986,015	
less war claims		<u>(3,400,000)</u>	
Net death benefit claims	\$	44,586,015	
Surrender benefits		6,134,134	
Service Benefits		2,471,491	
Premium refunds, term insurance		1,074,024	
Supplemental contracts payments		961,302	
Insurance expense			
Increase in aggregate reserves for life policies		20,048,038	
Decrease in reserves for war claims		(8,346,837)	
Increase in reserves for supplemental contracts		322,352	
Increase in reserves for dues		25,528	
General administrative and operation expenses		<u>7,849,703</u>	(75,125,750)

NET INCOME BEFORE EXCESS INTEREST CREDITS

AND INVESTMENT TRANSACTIONS			11,251,864
Excess interest credited to policies			<u>(8,926,296)</u>

NET INCOME AFTER EXCESS INTEREST CREDITING

Net realized gain on investments			2,325,568
(excluding Interest Maintenance Reserve gains of \$3,769,226)			<u>1,553,164</u>

NET INCOME

\$ 3,878,732

Reserve Transactions

INSURANCE AND OTHER RESERVES, BEGINNING OF YEAR, as originally reported

Prior Period Adjustment, see Note 10

INSURANCE AND OTHER RESERVES, BEGINNING OF YEAR, as restated

Increase in reserves for life policies	\$	20,048,038	
Increase in reserves for supplemental contracts		322,352	
Increase in reserves for dues		25,528	
Excess interest credited		<u>8,926,296</u>	
Net change in reserves for the year			29,322,214

INSURANCE AND OTHER RESERVES, END OF YEAR

\$ 736,915,832

General Contingency Reserve

GENERAL CONTINGENCY RESERVE, BEGINNING OF YEAR, as originally reported

Prior Period Adjustment, see Note 10

GENERAL CONTINGENCY RESERVE, BEGINNING OF YEAR, as restated

Net Income	\$	3,878,732	
Decrease in unrealized depreciation of equity securities		11,132,044	
Increase in non-admitted assets		(2,148,472)	
Increase in Asset Valuation Reserve		<u>(2,707,763)</u>	
Net change in reserves for the year			10,154,541

GENERAL CONTINGENCY RESERVE, END OF YEAR

\$ 74,207,973

We appreciate all of your help in working with me to reduce the premiums for the insurance. Thank you for letting me know about the changes. We look forward to a long *relationship* with AAFMAA.

Lt Col Hector M, member since 2010

Statement of Cash Flows

STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2010

Cash Flows From Operating Activities

Net Income		\$	3,878,732
Adjustments to reconcile net income to net cash			
Amortization of Interest Maintenance Reserve	\$	(4,293,947)	
Equity (Earnings) in Subsidiaries		(236,979)	
Realized Net Gains from Investments		(5,313,925)	
Realized Net Gains included above transferred to Interest Maintenance Reserves		3,769,226	
Amortization/Accretion of Bond Discount/Premiums		(497,669)	
Net Increase in Life & Other Reserves		17,575,378	
Depreciation expense		463,562	
Bad debt expense		1,652,779	13,118,425
Changes in operating assets and liabilities			
Increase in Accrued Investment Income	\$	(1,416,254)	
Increase in Other Assets		(38,891)	
Increase in Related Party Receivable		(148,119)	
Increase in Death Benefits Payable		144,099	
Decrease in Accounts Payable		(3,900,110)	
Decrease in Deferred Revenue		(38,179)	
Increase in Settlement Options Payable		3,866,691	
Decrease in Accrued Post-Retirement Benefits		(999)	
Increase in Related Party Payable		295,011	(1,236,751)
NET CASH PROVIDED BY OPERATING ACTIVITIES			15,760,406

Cash Flows From Investing Activities

Policy Loans Issued	\$	(28,019,895)	
Policy Loan Repayments		28,777,817	
Securities Purchased		(406,331,216)	
Securities Sold/Redeemed		353,797,335	
Capital Contributions to Subsidiary		(2,206,438)	
Capital Distributions from Subsidiary		727,308	
Fixed Assets Purchased		(614,780)	
Non-admitted Assets Purchased		(2,764,705)	
Dispositions of Non-admitted Assets		197,511	
NET CASH USED BY INVESTING ACTIVITIES			(56,437,062)
DECREASE IN CASH AND CASH EQUIVALENTS			(40,676,656)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			74,880,323
CASH AND CASH EQUIVALENTS AT END OF YEAR			\$ 34,203,667

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 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 loans is recorded when earned, except on loans in foreclosure or where collection is uncertain. CAP loans are non-collateralized. CAP loans of \$1,757,321 were written off due to non-performance during the year. This number represents about 5.3% 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 admitted asset value and market value of each category of investments held by AAFMAA. Mortgages are private placements for which quoted market values are not available. For mortgages and policy loans, cost is used as the market value. Equity securities are reported at cost of \$159,943,885 less unrealized losses of \$38,122,394.

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 formed two wholly owned subsidiaries in 2009, AAFMAA Property LLC and AAFMAA Financial Advisors LLC, as single member limited liability companies (LLC). AAFMAA Property LLC was formed to hold the property in Reston, Virginia to be used as space for AAFMAA, AAFMAA Financial Advisors LLC and future expansion. AAFMAA has leased the space not currently required for use by AAFMAA or AAFMAA Financial Advisors LLC. Renovations to the Reston property were completed in 2010. AAFMAA's investment as of 31 December 2010 is \$22,422,619. The purchase price was \$16,164,536. Renovations of \$8,300,000 were authorized. The purchase price plus the renovations can be viewed as the current fair market value. AAFMAA Financial Advisors LLC was formed to provide Living Services and Survivor Assistance Services to AAFMAA members and surviving widow(ers). The company began providing these services effective 1 July 2010. AAFMAA also formed a wholly owned subsidiary, AAFMAA Wealth Management Inc., on 2 December, 2010 with the expectation of providing wealth management services in the future. No services were provided in 2010. Under statutory accounting practices, the net income or loss from these subsidiaries is accounted for by AAFMAA under the equity method of accounting. Income or loss from these subsidiaries earned in 2010 is included in the Net Investment Income on the Income Statement.

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 2010, \$4,242,104 of assets considered

non-admitted have 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 \$463,562.

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 2010 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 (FDIC) for up to \$250,000. In addition, the FDIC Transaction Account Guarantee (TAG) Program guarantees full deposit coverage through 31 December 2012 for all non interest-bearing transaction accounts, regardless of the dollar amount. Coverage under the TAG program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. AAFMAA's account used for daily operations is such an account. In addition, AAFMAA maintains various accounts, containing securities and cash, in trust with a large bank custodian. These accounts are uninsured.

Income Taxes

The Association is a tax-exempt, non-profit association as described in section 501(c) (23) of the Internal Revenue Code. The income and expenses of the Association, along with those of its wholly owned single-member limited liability companies, are reported on its Federal income tax return. Although the Association is tax exempt, it still evaluates uncertainty in income tax positions based on a "more-likely-than-not" recognition standard, effective 1 January 2010. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of 31 December, 2010, the Association has evaluated its material tax positions and determined that no accruals for uncertain tax positions are required on the Association's financial statements. Returns filed for tax periods ending after 31 December, 2007 are open to examination and any changes by the taxing authorities may affect the Association's income tax liability.

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, soldiers and airmen of the US Army and US Air Force, cadets serving at the US Military Academy and US Air Force Academy, and cadets with ROTC scholarships/contracts, and honorably discharged veterans in Virginia, North Carolina, South Carolina and Maryland. 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 insurance, term life insurance, Living Services for members, and Survivor Assistance Services for surviving widow(ers) of deceased members.

3. SECURITIES IMPAIRMENTS

AAFMAA recognizes impairment losses when it is determined that the value of certain fixed maturity securities have other than temporary declines during the applicable reporting period, as well as when there are further declines in the value of securities that were initially written down in a prior period. During 2010, AAFMAA did not recognize any other-than-temporary impairment losses. AAFMAA recognized recovery gains of \$665,773 as securities that were impaired and written down in prior years were sold at prices above their impairment values (cost).

4. RELATED-PARTY TRANSACTIONS

The contract with Armed Forces Services Corporation (AFSC) to provide Living Services and Survivor Assistance Services automatically terminated 30 June 2010. The 2010 servicing expense from January through June 2010 was \$1,250,292. Beginning 1 July 2010, AAFMAA Financial Advisors LLC provides these services. As part of the servicing agreement between AAFMAA and AAFMAA Financial Advisors LLC, certain personnel and software are shared between the two entities. At 31 December, 2010, AAFMAA is due \$148,119 and owes \$295,011 from/to AAFMAA Financial Advisors LLC, for various shared expenses. The servicing expenses incurred by AAFMAA for the period 1 July through 31 December 2010 were

Notes to Financial Statements

(AS OF 31 DECEMBER 2010)

\$1,221,199. AAFMAA Financial Advisors LLC's net income through December 2010 was \$226,896. AAFMAA Property LLC's net income for 2010 was \$10,083. AAFMAA Wealth Management Inc. was not yet operational in 2010; hence, AAFMAA recognized no income or loss from that subsidiary in 2010.

5. 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 funding for the year ended 31 December 2010 was \$611,454 which includes \$294,729 of AAFMAA contributions and \$316,725 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.

6. 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 2010 were \$3,784. 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 \$22,983.

7. COMMITMENTS

As of 31 December 2010, the Association is committed to fund \$2,625,000 for real estate mortgage loans.

8. 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 \$13,455, which is subject to change based on an evaluation of fair market rental value to be performed every five years.

9. FAIR VALUE MEASUREMENTS

The NAIC established a framework for measuring and disclosing fair value information with Statement of Statutory Accounting Principles (SSAP) No. 100 (Fair Value Measurements), effective 31 December, 2010. This pronouncement provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). For 2010, fair value disclosure is required for any asset or liability reported at fair value in the Statement of Assets, Liabilities and Reserves. The three levels of the fair value hierarchy under SSAP No. 100 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include: (1) Quoted prices for similar assets or liabilities in active markets; (2) Quoted prices for identical or similar assets or liabilities in active markets; (3) Inputs other than quoted prices that are observable for the asset or liability; (4) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used attempt to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. Common stocks: Valued at closing price reported on the active market on which the individual securities are traded. Rights and warrants: Valued using over-the-counter trade pricing supplied by the Association's custodian bank. Short-term investment funds: Valued at the net asset value ("NAV") of shares held by AAFMAA at year end.

Assets Measured and Reported at Fair Value on a Recurring Basis at 31 December, 2010:

	Level 1	Level 2	Level 3
Included in equity securities:			
Common stock	\$121,818,922	\$ 0	\$ 0
Rights and warrants	0	2,570	0
Included in cash & cash equivalents:			
Short-term investment funds	30,789,202	0	0
Total assets at fair value	\$152,608,124	\$2,570	\$ 0

10. PRIOR PERIOD ADJUSTMENT AND PRIOR FINANCIAL STATEMENT PRESENTATION

Insurance and Other Reserves were understated and General Contingency Reserve was overstated at the beginning of the year by the same amount. This resulted in an understatement of the Life Insurance Reserves liability computed at the end of 2009 in the amount of \$3,263,000. Had this not occurred, net income for 2009 would have been decreased by \$3,263,000.

Further, the accounting treatment for the War Risk Reserve should have been handled differently in prior years. The annual actuarially computed increase or decrease to the War Risk Reserve should have affected annual net income. Annual net income is reported through the General Contingency Reserve. Instead, the annual change was reallocated from the General Contingency Reserve. The cumulative impact of the accounting treatment of the Reserves totals \$37,374,000. Therefore, the ending War Reserve and correspondingly, the Total Reserves were not understated nor overstated in any year.

11. SUBSEQUENT EVENTS

22 March, 2011 is the date to which events subsequent to 31 December 2010 (the date of the most recent balance sheet) have been evaluated for possible adjustment to the financial statements or disclosure. 22 March, 2011 is the date on which the financial statements were available to be issued.

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, 2010, 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, 2010, or 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, 2010, 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 2010) 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.

BERLIN, RAMOS & COMPANY, P.A.
March 22, 2010

AAFMAA Life Insurance



Level Term I

Inexpensive term life insurance for members and spouses.

Great low-cost supplement or alternative to SGLI.

- Level premium and death benefit to age 50 (40 for nicotine users)
- Save up to 27% 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 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	\$ 6.50
\$250,000	\$ 13.00	\$11.70	\$ 16.25
\$400,000	\$ 19.00	\$17.10	\$ 26.00
\$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. Subject to complete terms and conditions of the policy.

**Premium shown does not include \$1.00 charge for TSGLI.



Level Term II

Flexible, cost effective coverage for members and spouses with short and long term needs.

Great alternative to VGLI.

- Pick the coverage (\$50,000 to \$800,000) and term (5 to 30 years)
- Coverage can last up to age 85
- Save thousands over VGLI
- 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 life-style. Subject to complete terms and conditions of the policy.

Call Now — 1-877-398-2263

**A Tradition of Protecting
Army and Air Force Members
and Families for 132 Years.**

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 or 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 of all services below age 66, residing in Maryland, North Carolina, South Carolina or Virginia are also eligible.



Generations Plus

Provides children and grandchildren the option of having **GUARANTEED INSURABILITY** when they turn 21...at affordable low-cost premiums. **YOU** can help plan their financial security **NOW**.

- Permanent life insurance that builds cash value
- Initial coverage amount from \$10,000 to \$30,000
- Initial coverage amount **automatically doubles** at age 21 with **no increase in premium**
- 100% money back guarantee—all premiums paid at any time and no surrender charges
- Guaranteed 4% crediting rate
- Available age 15 days–12 years
- Guaranteed Purchase Options at ages 21, 25 and 28
- Get up to 4 times initial coverage at each eligible age

Sample Generations Plus Monthly Premiums

Coverage automatically doubles at age 21 at no added cost.

INITIAL COVERAGE AMOUNT					
AGE	\$10,000	\$15,000	\$20,000	\$25,000	\$30,000
Under 1*	\$6.40	\$9.60	\$12.80	\$16.00	\$19.20
2	\$6.40	\$9.60	\$12.80	\$16.00	\$19.20
4	\$6.50	\$9.75	\$13.00	\$16.25	\$19.50
6	\$6.90	\$10.35	\$13.80	\$17.25	\$20.70
8	\$7.40	\$11.10	\$14.80	\$18.50	\$22.20
10	\$7.90	\$11.85	\$15.80	\$19.75	\$23.70
12	\$8.50	\$12.75	\$17.00	\$21.25	\$25.50

*Minimum age of 15 days. Premiums subject to change. Rates as of 3/1/11. Call for complete list of premium rates.

Contact a Membership Coordinator Today—
1-877-398-2263



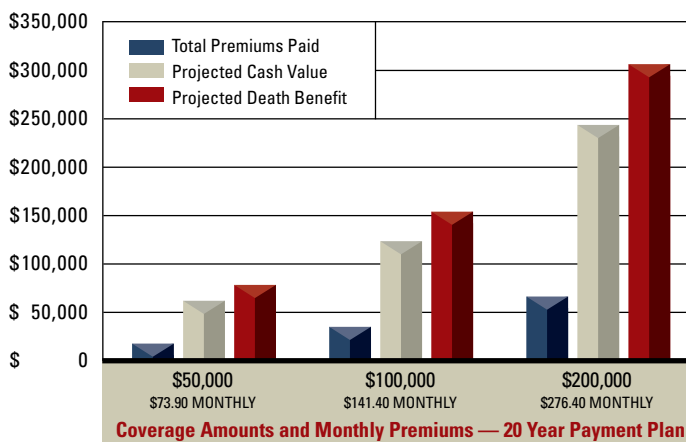
Value-Added Whole Life

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 surrender value, whichever is GREATER)
- Premiums guaranteed to NEVER increase
- Great crediting rate (7.0% for 2011 — NOT guaranteed, subject to change.) Guaranteed 4.5%
- Borrow up to 75% of the cash value at 1% above the current crediting rate
- Long Term Care Settlement Option included with policy (restrictions apply)
- Flexible payments — Single Payment, 7, 20, 30 years, or Pay to age 100
- Purchase 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, 20 year payment plan, projected crediting rate of 7.0%, **NOT** guaranteed and subject to change.



Subject to complete terms and conditions of the policy.

Thank you for your extremely helpful session with us in your new offices in Reston. Bridget, in particular, departed feeling thoroughly reassured of AAFMAA's capacity and deep *commitment* to assist her and all other spouses upon the death of their partners. Again, we appreciate the time and assistance you provided us in our visit to AAFMAA. Knowing how busy you must be handling critical survivor matters, Bridget and I valued your willingness to meet with us for an extended period.

COL Kevin C, member since 1973



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 monthly payments are calculated to age 100, with an annual "bonus" check if Net Yield on Assets exceeds 4%
- Can be purchased up to age 99

**Call for a Projection—
1-877-398-2263**

In addition to Army and Air Force veterans, honorably discharged veterans from other services living in these states can also join **AAFMAA**.



MARYLAND



NORTH CAROLINA



SOUTH CAROLINA



VIRGINIA

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



Survivor Assistance Services

At the heart of our 132 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, including:

- 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

AAFMAA

Life Insurance

Term Insurance

■
Whole Life

■
ANNUITYLife



**Army and Air Force
Mutual Aid Association**

102 Sheridan Avenue
Fort Myer, VA 22211-1110

INSURANCE SALES: 1-877-398-2263
Monday–Friday, 8:30 am–7:00 pm ET

MAIN OFFICE HOURS:
Monday–Friday, 8:30 am–4:30 pm ET

TOLL FREE: 1-800-522-5221

LOCAL: 703-707-4600

FAX: 703-522-1336

E-MAIL: info@aafmaa.com

WEB SITE: www.aafmaa.com

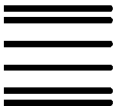
AAFMAA

Financial Advisors

Advice

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Survivor Services

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Veterans' Benefits

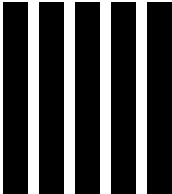


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FORT MYER VA 22211-9987

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UNITED STATES



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*Insurance from a name you can trust... **AAFMMAA***
STABILITY • REPUTATION • LOW COST • SINCE 1879

TAPE HERE





Yes!

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

MEMBER

☐

SPOUSE

☐

Level Term I:

Save up to 27% over SGLI. Level coverage to age 50 (40 for nicotine users).

☐☐

Level Term II:

Save thousands over VGLI. Ideal for maturing families and retirees—short and long term coverage (5 to 30 years) can last to age 85.

☐☐

Value-Added Whole Life:

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

☐☐

ANNUITY Life:

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

CHILD

☐

GRANDCHILD

☐

Value-Added Whole Life:

Permanent insurance for children/grandchildren ages 6 months – 23 years.

☐☐

Generations Plus:

Permanent insurance up to \$30,000 for children 15 days through age 12. Coverage automatically doubles at age 21 with no increase in premiums.

☐☐

Level Term I:

Term insurance for children/grandchildren ages 18-23. Level coverage to age 50 (40 for nicotine users).

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 (any service—MD, NC, SC 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 Toll-Free—1-877-398-2263

www.aafmaa.com