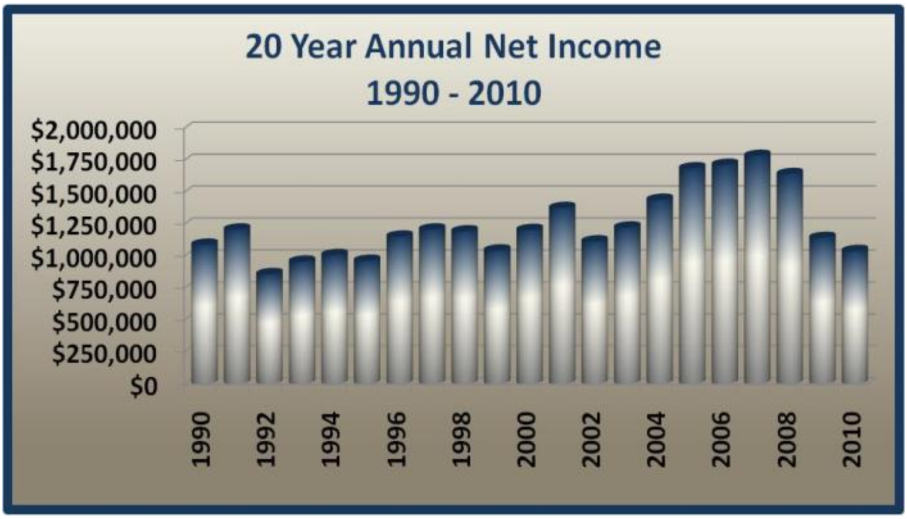
# Annual REPORT

# 2010

AMERICAN SAVINGS LIFE INSURANCE COMPANY

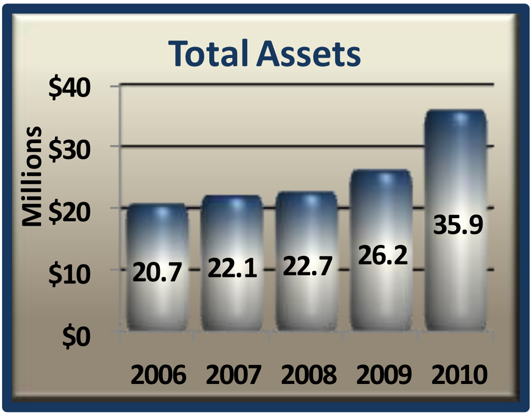
*Founded 1954*

*A Tradition of*
# FINANCIAL STRENGTH

# *Key Financial* HIGHLIGHTS

**Total Assets**
Increased
**$9,756,000 (37%)**
To $35,940,000

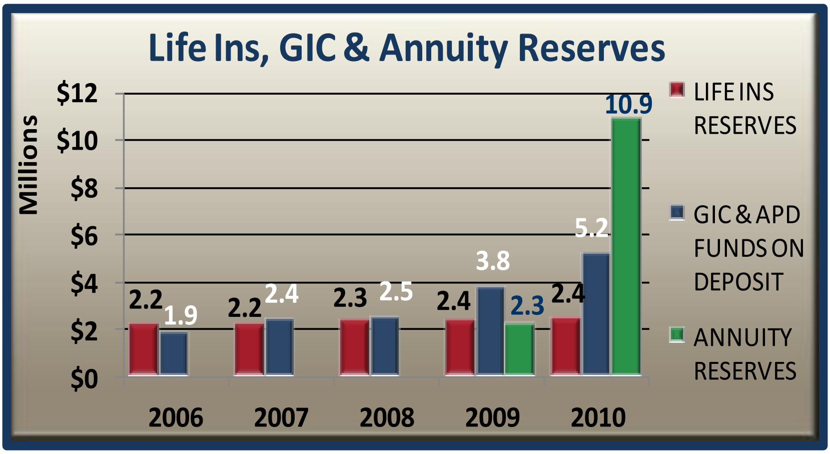



**Total Mortgage Loans**
Increased
**$6,167,000 (34%)**
To $24,120,000

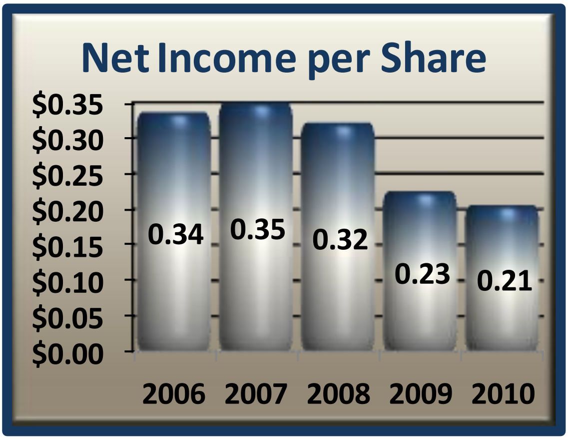

**Life Insurance Reserves**
increased **$29,000 (1.2%)** to $2,426,000

**Funds on Deposit (GICs)**
increased **$1,382,000 (36%)** to $5,177,000

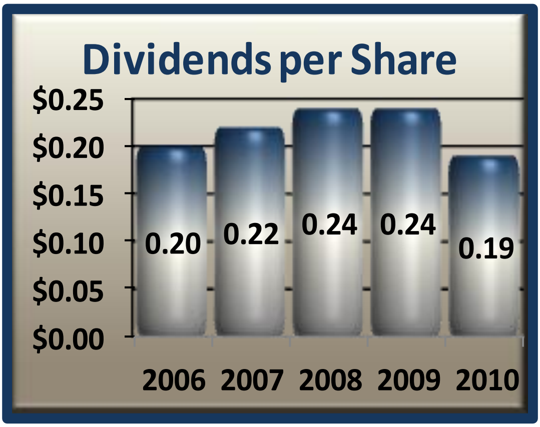
**Annuity Reserves**
increased **$8,631,000 (376%)** to $10,925,000



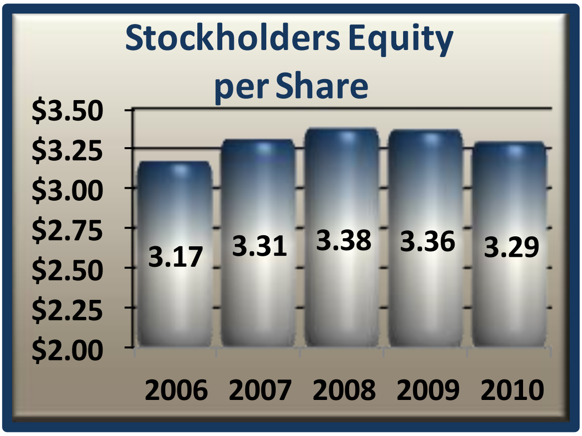
# *Per Share Key Financial* HIGHLIGHTS




**Net Income per share**
decreased
**1.9¢ (-8.6%)**
to
**20.6¢ per share**




**Dividends per share**
decreased
**5.0¢ (-20.8%)**
to
**19.0¢ per share**




**Stockholders Equity per Share**
decreased
**7.5¢ (-2.2%)**
to
**$3.29 per share**

# *Dear Fellow* SHAREHOLDERS

March 1, 2011

The turbulence that continues to strain our country's economy and real estate market is presenting new challenges for our Company. As management, our job in navigating the Company through these headwinds has been anything but dull!

To return and report, in last year's Annual Report we stated our goals for 2010 were to originate at least $10 million in real estate loans and to sell $8 million in new annuities. During the year we exceeded both of these goals, originating $11.5 million in loans and selling $8.2 million in annuities. These sales were the primary source of increasing our assets by $10 million last year. This provides an increasing source of income, as we invest those funds in safe mortgage loans.

Although we were successful in meeting these important goals, our overall performance was less than stellar. We earned $1,042,000 of net income (20.6 cents per share) and we paid out $963,000 in dividends (19 cents per share), which was a 5.6% dividend yield on your 12-31-2009 book value. Your overall net return on your investment in American Savings Life was only 3.4% because Shareholder Equity (book value) decreased 2.2%.

Just as you have noticed what is happening with your home equity, the current real estate market has reduced the value of the properties which serve as collateral for mortgage loans. Even though the Company's loans when we made them were only 50 to 65 percent of the collateral value, in some instances that safety cushion has been completely eroded. When this happens, the Company absorbs a decrease in book value and earnings are reduced if payments stop or if the foreclosed property is appraised for less than what was owed. Likewise, the asset may not provide us an income until it is re-sold.

Thankfully, our conservative lending policies have resulted, even in this market, with 72% of all mortgages still current and paying according to original terms. In addition, 71% of the delinquent loans have made a payment in the last 30 days, showing they are trying to become current.

Of course there are areas where we have fallen short and where we strive to improve that will help us counter these economic headwinds. We strive to maintain adequate liquidity to be able to timely honor insurance claims, annuity & GIC withdrawals, and other liquidity needs. All cash beyond that level, however, we seek to have invested in performing assets, primarily mortgage loans. Last year we consistently had several million dollars more cash than necessary, thus underperforming. Likewise, Company owned real estate has grown from $2 million to $4 million in the past two years, most of which is not generating any income.

> "The first 2011 semi-annual dividend has been declared to be nine cents per share and will be paid on April 8, 2011."

Thus our top priority for 2011 is to have more of our assets producing satisfactory returns. We have a goal of originating at least $12 million in safe real estate loans and selling at least $1 million of our real estate.

Our dividends to stockholders also show the effect of our lower earnings, since the first 2011 semi-annual dividend has been declared to be nine cents per share and will be paid on April 8, 2011. This is one cent per share less that that paid a year ago. Our commitment to pay regular semi-annual dividends remains unchanged.

Our financial strength remains solid, with $1.86 in Assets for every $1 in Liabilities. This Solvency Ratio of 1.86 is one of the strongest in our industry. Our investment model has been proven for more that fifty years, and we are certain it will survive the economic storm with flying colors. In the words of Warren Buffett, "Time is the friend of the wonderful business." (Would an Annual Report be complete without a quote from Warren Buffett?)

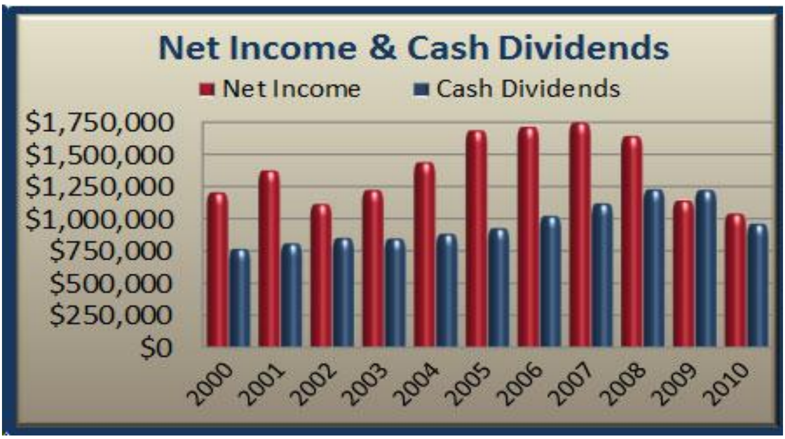
We are blessed to be shareholders with you in this wonderful business. The headwinds currently buffeting us from the depressed real estate market and economy will assuredly turn around and eventually become tail winds, propelling us to greater profitability.

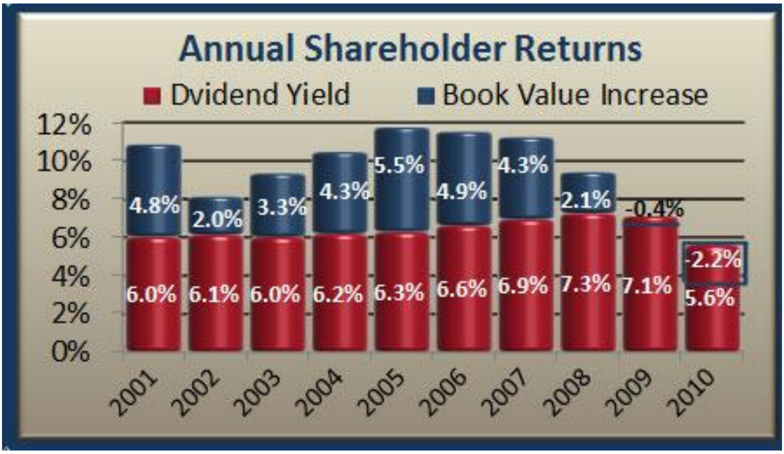
We invite you to attend the Annual Stockholders Meeting on April 12, 2011 at 10:00 AM at our home office. We hope to see you there!

Sincerely,

Byron Frihoff Allen, President

David K. Allen, Chairman



## 2010 FINANCIAL RESULTS

Our 2010 net income was down 9% from 2009. The most significant contributors to this decrease in income was $359,000 of past due interest income from delinquent loans that we cannot accrue (shown as income in our *Statement of Operations*) since the property value is estimated to be less than the loan balance. The other noteworthy hit to our income was the realized loss from three loans that appraised for $137,000 less than the balance owed at time of foreclosure. Fortunately this was offset by a $150,000 realized capital gain on the payoff of discounted notes we purchased in 2009, which were briefly described in the 2009 Annual Report.

Our 2010 Shareholders Equity (Book Value) decreased $450,000 (2.6%) from 2009. This reduction was mainly the result of a $419,000 Asset Valuation Allowance for delinquent loans deemed "temporarily impaired" (where the current value of the property securing the loans is estimated to be less than the loan balance). This amount is the majority of the *Unrealized Loss on Securities* in the *Statement of Financial Position.*

## LIFE INSURANCE & ANNUITY OPERATIONS

### Annuities

Our Premier Series Annuity sales exceeded our expectations ($8.2 million in 2010), even with significant decreases in the interest rates and sales commissions last year. We initiated these constraints to slow the annuity premium inflows to allow our loan originations to catch up, which effort is still in progress. Additionally, we do not want to grow too quickly and since Total Assets have now increased 50% since just before we began selling the annuities in 2009. Prudence dictates we slow down this pace.

With interest rates as low as they are, we have the potential to earn a very attractive profit on annuity sales since we invest about 80% of our annuity funds in our NOT SO HARD MONEY™ loans, which yield on average 11% interest. We are not setting a specific goal for annuity sales in 2011, rather annuity sales will be driven by our success in making safe real estate loans.

## Guaranteed Interest Contracts (GICs)

GIC deposits were an additional source of our asset growth last year, with GICs increasing by $1.2 million to a record level of $5.1 million in total. We do not publicly advertise these accounts and we pay no sales commissions on them, yet word still has a way of spreading about these accounts that pay a guaranteed minimum interest rate of 4.0%. Approximately 85% of all GICs are held by stockholders, many of whom have elected to have their stock dividends directly deposited into their GICs.

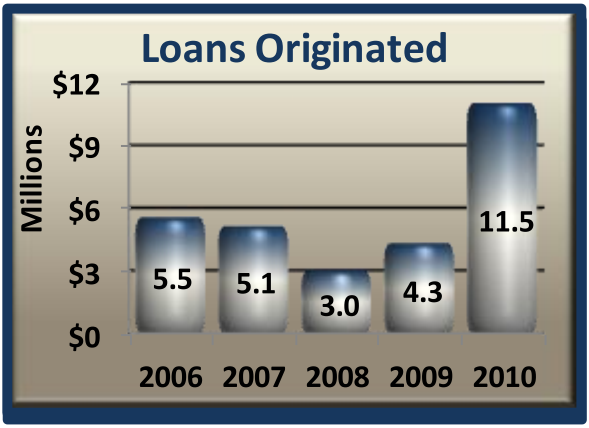
## Life Insurance

Life Insurance Sales & Reserves remained consistent with recent years. We have not changed the priority of growing life insurance sales. We have chosen instead to focus our efforts on our mortgage lending operations. This is the mission critical part of our business plan that is proving to be the most challenging, given our very conservative lending parameters.

# INVESTMENTS

## Mortgage Loans

Through our subsidiary mortgage company, American Life Financial Corporation, we originated a record $11.5 million in loans last year. We believe this will prove to be a great boon for the Company since now nearly 40% of our total loan portfolio was made loaning an average of less than 55% of today's lower property values. These loans should be much safer than loans made in the past since we are loaning about half as much as we would have just a few years ago.




Nevertheless, it has not all been "peaches and cream" regarding our mortgage loans. We foreclosed on six loans totaling $1.2 million. Three of these properties appraised for a combined $137,000 less than our loan balance owed against them, which resulted in a realized loss, reducing our net income.

## Conservative Lending Parameters & "Old School" Lending

Our greatest challenge continues to be finding enough loans that meet our conservative lending parameters. The reason we have been able to remain profitable through this "Great Recession" is the conservative nature of the loans we have always made. The way we invest in real estate loans is very different than most life insurance companies or banks. We still do it the "old school" way, which we believe results in better, safer loans. Here's our approach:

First, we do not purchase pooled loans such as Mortgage Backed Securities. We originate the loans ourselves, in-house, with salaried loan officers who are not motivated by commissions to have the Company make questionable loans. This is certainly not typical in our industry these days.

Second, we closely review the required third party appraisal reports from licensed appraisers. If we do not agree with an assumption or we question any part of the appraiser's valuation process, we will discuss this directly with the appraiser. This results in the appraisers being very conscientious and conservative in the appraisals they do for us.

Third, we have a Company representative personally inspect each property and report his/her findings to the Investment Committee.

Fourth, we perform our own internal valuation of the property. We perform our own research of comparable sales and then compare this with four other indicators of value, including (a) what an investor would pay to receive the property's net rents (a "capitalization rate" value), (b) what the borrower paid for the property, (c) the Tax Assessor's valuation of the property, and (d) the independent appraiser's valuation. Our final internal valuation of the property is often less than the appraised value.

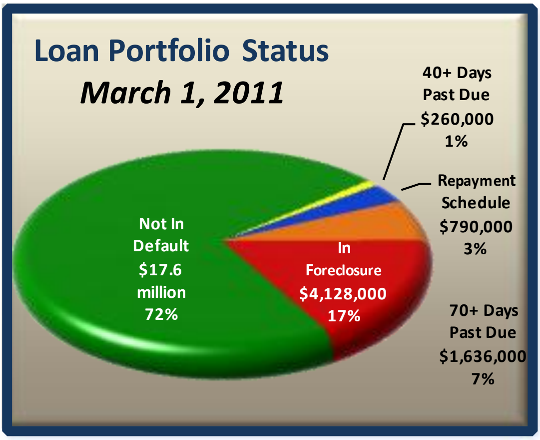
Fifth, we service the loans, collect payments, ensure the properties remain insured and that property taxes are paid. Doing this strengthens our relationship with the borrowers and also allows us to provide a higher level of service to the borrowers, including the ability to work with the borrowers if they become delinquent. We have successfully helped many borrowers avoid foreclosure merely by working with them on repayment schedules that allow them to eventually become current. This has helped us avoid many more foreclosures, which is a win-win solution we certainly prefer.

## Real Estate Owned

Our asset allocation or investment mix remains typical to our historical norms with one significant exception: Real Estate. The amount of our assets in real estate is unusually high as it has increased by $1 million each of the last two years. This increase is the result of foreclosures.

Historically we have found it profitable to hold on to foreclosed properties until the real estate market turns around and we are able to sell the property to a motivated buyer for a profit. So naturally this is our bias. Unfortunately, however, it is clear that this market downturn is different than any other the Company has experienced and it is certainly not clear when there will again be motivated buyers willing to pay attractive prices for our REO (Real Estate Owned) properties.

For this reason, for the first time in the Company's history, we are selling some of our REO properties at the current depressed market prices, even when it means taking a loss. We will not simply dump our entire REO portfolio of nearly 25 properties wholesale, but instead we are selectively choosing which properties we believe will be most advantageous for us to sell now. Our goal for 2011 is to sell at least $1 million of our REOs to get those funds reinvested in new loans and once again producing an attractive income for us.

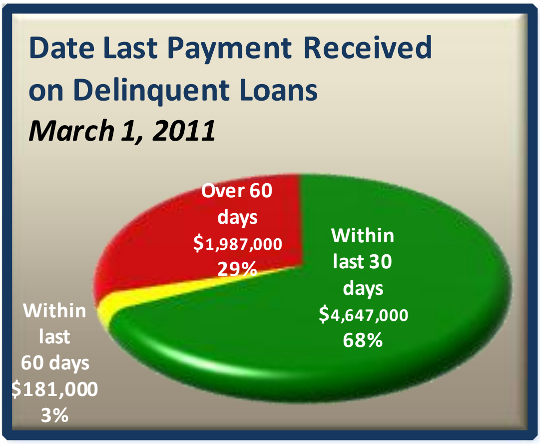



# LOOKING AHEAD

## Anticipated Foreclosures

Our total delinquent loans have increased $2.6 million to $6.8 million as of March 1, 2011. These increased delinquent loans will most likely lead to higher foreclosures, which will probably result in greater realized losses.

One silver lining on our delinquent loans, however, is that we still have a majority of our delinquent loans making payments and working toward becoming current. In fact, only 32% ($2.2 million) of our total delinquent loans have not made a payment since February 1, 2011. These are good indicators that most of our delinquent loans will not end up as foreclosures.



## Anticipated Impact on Profitability

We anticipate three important items will affect our profitability for 2011:

First will be necessary real estate foreclosures. In 2010 we reduced Shareholders Equity by over $400,000 in anticipation of having to write-down the value of foreclosed properties. When this occurs it will reduce our income and possibly affect the amount of near term future dividends.

Second, as we sell some of our REOs (Real Estate Owned) we most likely will have to sell some at a loss. We expect the net immediate result of REO sales will negatively impact our net income. Although this will likely hurt our income in the short-term, it will allow those assets to be reinvested into performing investments.

Third, the interest we will earn by investing the $16 million of annuities and GICs($9 million of which are new funds received in 2010) should be a meaningful source of additional income that should help offset the anticipated impact of higher foreclosures. With our average interest paid on our annuities and GICs being less than 5.5%, we expect to earn several hundred thousand dollars of additional income on these assets.

An additional positive factor is that as we continue to make new loans at the current low property values, our risk of incurring losses from foreclosure should decrease. As stated earlier, the loans we are writing down are loans made when property values (and thereby loan amounts) were much higher than current levels. So as these older loans become a smaller part of our total loan portfolio, so should their negative impact on our financials. There is a light at the end of the tunnel!

We know markets and economies are cyclical and they have always recovered, regained the lost ground and cruised right on into better days. After we work through our foreclosures (which may be two or three years still), we will be poised for significantly more profitable years ahead. We are confident that not only will we return to our record profit levels of 2005 and 2006, but we will cruise right past them to new highs. In the meantime, we are tightening our belt and doing all we can to improve our current level of profitability and stockholder dividends.

# Selected Financial Data—Five Year Comparison

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, 2008, 2007 & 2006
(UNAUDITED)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Statement of Operations Data** | | | | | |
| **Revenues** | | | | | |
| Life Ins. & Annuity Premiums | $ 8,343,442 | $ 2,534,682 | $ 267,240 | $ 138,356 | $ 137,058 |
| Interest & Other Investment Income | 2,692,701 | 2,282,160 | 2,726,795 | 2,616,257 | 2,505,331 |
| Total Revenues | 11,036,143 | 4,816,842 | 2,994,035 | 2,754,613 | 2,642,389 |
| **Expenses** | | | | | |
| Total Insurance Benefits/Expenses | 8,930,483 | 2,632,752 | 355,743 | 278,601 | 233,401 |
| Total General Expenses | 1,033,782 | 977,094 | 922,306 | 829,855 | 789,290 |
| Total Expenses | 9,964,265 | 3,609,845 | 1,278,049 | 1,108,456 | 1,022,691 |
| Net Gain From Operations | 1,071,877 | 1,206,997 | 1,715,986 | 1,646,157 | 1,619,698 |
| Net Income | 1,041,605 | 1,144,004 | 1,643,999 | 1,786,020 | 1,715,678 |
| **Statement of Financial Position Data** | | | | | |
| Total Assets | $ 35,940,253 | $ 26,184,273 | $ 22,682,582 | $ 22,069,686 | $ 20,717,374 |
| Total Liabilities | 19,302,223 | 9,097,468 | 5,405,498 | 5,238,194 | 4,542,515 |
| Total Shareholders Equity | 16,638,030 | 17,086,805 | 17,277,083 | 16,831,483 | 16,174,859 |
| **Per Share Data** | | | | | |
| Total shares outstanding | 5,056,348 | 5,077,881 | 5,116,137 | 5,091,530 | 5,102,640 |
| Net Income per share | $ 0.206 | $ 0.225 | $ 0.321 | $ 0.351 | $ 0.336 |
| Dividends per share | $ 0.190 | $ 0.240 | $ 0.240 | $ 0.220 | $ 0.200 |
| Shareholder Equity per share | $ 3.291 | $ 3.365 | $ 3.377 | $ 3.306 | $ 3.170 |

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Statement of Operations

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 & 2008

*(UNAUDITED)*

| REVENUES | 2010 | 2009 | 2008 |
|---|---|---|---|
| Life insurance premiums | $ 141,088 | $ 138,955 | $ 267,240 |
| Annuity premiums | 8,202,354 | 2,395,728 | 0 |
| Interest Income | | | |
| Interest on cash & cash equivalents | 79,830 | 64,339 | 54,486 |
| Interest on policy loans | 5,382 | 5,876 | 5,126 |
| Interest on mortgage loans | 2,165,504 | 1,963,744 | 2,500,776 |
| Investment Income Net of Expenses | | | |
| Net income on real estate owned | (55,652) | (69,583) | (44,040) |
| Mortgage Fees | 483,745 | 295,674 | 196,828 |
| Other investment income | 13,892 | 22,111 | 13,617 |
| TOTAL REVENUES | $ 11,036,143 | $ 4,816,842 | $ 2,994,035 |
| | | | |
| **EXPENSES** | | | |
| Death benefits | $ 40,320 | $ 46,605 | $ 42,970 |
| Other policyholder and annuity benefits | 155,039 | 37,058 | 44,703 |
| Policyholder dividends | 36,047 | 34,322 | 31,477 |
| Incr/decr in life reserves and loading | 35,278 | 51,006 | 143,029 |
| Incr/decr in annuity reserves | 7,908,378 | 2,293,971 | |
| Commissions and Advertising | 114,640 | 30,482 | 25 |
| Interest on insurance and annuities | 640,782 | 139,308 | 93,540 |
| General Expenses | | | |
| Salaries and wages | 677,745 | 647,106 | 620,299 |
| Welfare Plan | 51,168 | 47,786 | 40,411 |
| Profit Sharing Plan | 67,850 | 64,906 | 61,803 |
| Professional Service fees | 89,639 | 75,563 | 78,687 |
| Other expenses | 64,087 | 76,131 | 53,985 |
| Taxes Licences and Fees | 83,293 | 65,601 | 67,121 |
| TOTAL EXPENSES | $ 9,964,265 | $ 3,609,845 | $ 1,278,049 |
| | | | |
| NET GAIN FROM OPERATIONS | $ 1,071,877 | $ 1,206,997 | $ 1,715,986 |
| Realized Gain on Real Estate & Securities | 130,327 | 118,801 | 195,739 |
| Federal Income Tax Paid | (160,599) | (181,794) | (267,726) |
| | | | |
| NET INCOME | $ 1,041,605 | $ 1,144,004 | $ 1,643,999 |
| | | | |
| Total shares outstanding | 5,056,348 | 5,077,881 | 5,116,137 |
| Net Income per share | $ 0.206 | $ 0.225 | $ 0.321 |

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Statement of Financial Position

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 & 2008

*(UNAUDITED)*

| ASSETS | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash and cash equivalents | $ 6,292,430 | $ 4,065,369 | $ 1,890,635 |
| Long term certificates of deposit | 500,000 | 500,000 | 500,000 |
| Common & preferred stock | 42,636 | 38,874 | 34,873 |
| Policy loans | 111,413 | 116,003 | 105,651 |
| Mortgage loans | 24,119,999 | 17,952,892 | 17,634,625 |
| Real estate investments & receivables | 3,994,546 | 2,958,586 | 1,956,876 |
| TOTAL CASH & INVESTED ASSETS | 35,061,024 | 25,631,725 | 22,122,660 |
| | | | |
| Accured interest & deposits | 347,694 | 295,106 | 303,880 |
| Deferred policy acqusition asset | 305,664 | 0 | 0 |
| Land and building | 194,494 | 193,870 | 189,788 |
| Office equipment | 31,377 | 34,917 | 40,333 |
| Income tax refundable | 0 | 28,655 | 25,921 |
| TOTAL ASSETS | $ 35,940,253 | $ 26,184,273 | $ 22,682,582 |
| | | | |
| **LIABILITIES** | | | |
| Reserves for life policies | 2,425,721 | 2,396,887 | 2,343,856 |
| Reserves for annuities | 10,925,431 | 2,293,971 | 0 |
| Insurance policy claims pending | 15,370 | 24,901 | 30,295 |
| Policy holder & GIC funds on deposit | 5,177,301 | 3,795,663 | 2,520,053 |
| Other policy holder liabilities | 42,116 | 41,382 | 38,243 |
| Taxes & expenses due & accrued | 152,382 | 138,216 | 134,413 |
| Unearned investment income | 4,594 | 85,256 | 3,887 |
| Amounts held by ASLIC for others | 556,355 | 320,891 | 334,684 |
| ASLIC stockholder dividend payable | 0 | 0 | 0 |
| Income tax payable | 2,954 | 301 | 67 |
| TOTAL LIABILITIES | $ 19,302,223 | $ 9,097,468 | $ 5,405,498 |
| | | | |
| **SHAREHOLDERS EQUITY** | | | |
| Capital stock | 922,607 | 921,841 | 919,878 |
| Capital stock in excess of par | 2,419,363 | 2,394,578 | 2,331,413 |
| Stock notes & Employee receivables | (26,433) | (14,336) | (11,401) |
| Retained earnings | 18,872,553 | 18,804,234 | 18,885,831 |
| Unrealized gain (loss) on securities | (415,869) | 26,100 | 22,099 |
| Less treasury stock | (5,134,191) | (5,045,612) | (4,870,737) |
| TOTAL SHAREHOLDERS EQUITY | $ 16,638,030 | $ 17,086,805 | $ 17,277,083 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 35,940,253 | $ 26,184,273 | $ 22,682,582 |
| | | | |
| Shares Outstanding | 5,056,348 | 5,077,881 | 5,116,137 |
| Equity Value Per Share | $ 3.291 | $ 3.365 | $ 3.377 |

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Statement of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 & 2008
*(UNAUDITED)*

| OPERATING ACTIVITIES | 2010 | 2009 | 2008 |
|---|---|---|---|
| *Funds provided from operations* | | | |
| Premiums received | $ 8,336,438 | $ 2,537,362 | $ 267,351 |
| Net investment income (excluding realized | 2,790,874 | 2,096,384 | 2,379,869 |
| *Total funds provided from operations* | 11,127,312 | 4,633,746 | 2,647,220 |
| *Funds used in operations* | | | |
| Benefits and loss related payments | (593,375) | (226,633) | (193,489) |
| Commissions and other expenses and taxes paid *(excluding federal income taxes)* | (796,832) | (611,955) | (679,840) |
| Dividends paid to policyholders | (34,235) | (31,838) | (25,093) |
| Federal income taxes paid *(excluding capital gains tax)* | (136,059) | (181,772) | (267,744) |
| *Total funds (used) in operations* | (1,560,502) | (1,052,198) | (1,166,166) |
| *NET CASH PROVIDED FROM OPERATIONS* | $ 9,566,810 | $ 3,581,549 | $ 1,481,054 |
| **INVESTING ACTIVITIES** | | | |
| *Funds provided from investments sold, matured or repaid* | | | |
| Bonds | 0 | 0 | 100,000 |
| Stocks | 0 | 0 | 0 |
| Mortgage Loans | 5,263,588 | 4,156,649 | 3,620,003 |
| Real Estate | 54,749 | 30,085 | 41,764 |
| Other invested assets | 50 | 128 | 100,075 |
| *Total investment proceeds before capital gains tax* | 5,318,387 | 4,186,862 | 3,861,842 |
| *Cost of investments acquired* | | | |
| Class one mutual funds & long term CD's | | | (100,000) |
| Mortgage Loans | (11,619,940) | (4,331,057) | (3,034,351) |
| Real Estate | (1,208,554) | (1,034,477) | (852,972) |
| Other invested assets | (12,171) | (21,499) | (111,180) |
| *Total cost of investments acquired* | (12,840,664) | (5,387,032) | (4,098,503) |
| (Increase) Decrease in policy loans | 4,590 | (10,353) | (397) |
| *NET CASH PROVIDED BY INVESTING ACTIVITIES* | $ (7,517,687) | $ (1,210,523) | $ (237,058) |
| **FINANCING ACTIVITIES** | | | |
| *Funds provided from (used for) financing activities* | | | |
| Capital and paid in surplus | 25,551 | 65,129 | 130,945 |
| Net deposits on deposit-type contracts | 1,204,105 | 1,139,037 | 7,799 |
| Cash dividends paid | (963,137) | (1,225,581) | (1,230,632) |
| Treasury stock purchased | (88,579) | (174,875) | (66,027) |
| *Net cash provided from (used for) financing activities* | $ 177,940 | $ (196,291) | $ (1,157,915) |
| Increase (Decrease) in cash and short-term | $ 2,227,062 | $ 2,174,734 | $ 86,081 |
| Cash and short-term investments, beginning of year | 4,065,368 | 1,890,635 | 1,804,554 |
| Cash and short-term investments, end of year | 6,292,430 | 4,065,368 | 1,890,635 |

*The accompanying notes are an integral part of these financial statements.*

# Statement of Changes in Stockholders Equity

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009
(UNAUDITED)

| | Capital Stock | Capital In Excess Of Par | Accumulated Other Comprehensive Income (Loss) | Unassigned Surplus | Receivables From the Sale of Capital Stock | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| BALANCES, December 31, 2008 | 919,877 | 2,331,413 | 22,099 | 18,885,811 | (11,381) | (4,870,737) | 17,277,083 |
| COMPREHENSIVE INCOME: | | | | | | | |
| Net Income | | | | 1,144,004 | | | 1,144,004 |
| Change in unrealized investment gain or (loss) | | | 4,001 | | | | 4,001 |
| Comprehensive income | | | 4,001 | 1,144,004 | | | 1,148,005 |
| Dividends declared & accrued | | | | (1,225,581) | | | (1,225,581) |
| Issue employee compensation in stock | 1,964 | 63,165 | | | | | 65,129 |
| Repurchase Capital Stock (Treasury) | | | | | | (174,875) | (174,875) |
| Change in Nonadmitted Assets | | | | | (2,956) | | (2,956) |
| BALANCES, December 31, 2009 | 921,841 | 2,394,578 | 26,101 | 18,804,233 | (14,336) | (5,045,612) | 17,086,805 |
| COMPREHENSIVE INCOME: | | | | | | | |
| Net Income | | | | $1,041,605 | | | 1,041,605 |
| Change in unrealized investment gain or (loss) | | | ($441,969) | | | | (441,969) |
| Comprehensive income | | | (441,969) | 1,041,605 | | | 599,637 |
| Dividends declared & accrued | | | | ($963,137) | | | (963,137) |
| Issue employee compensation in stock | $766 | $24,785 | | | | | 25,551 |
| Repurchase Capital Stock (Treasury) | | | | | | ($88,579) | (88,579) |
| Change Unrealized Gain on Securities | | | | | | | |
| Change in Nonadmitted Assets | | | | ($10,150) | ($12,096) | | (22,246) |
| BALANCES, December 31, 2010 | 922,607 | 2,419,363 | (415,868) | 18,872,552 | (26,433) | (5,134,191) | 16,638,030 |

*The accompanying notes are an integral part of these financial statements.*

# Notes to the Consolidated Financial Statements

## (1) ORGANIZATION

American Savings Life Insurance Company ("Company") is a registered capital stock life, health and accident insurance company authorized to conduct business in the states of Arizona and Utah. The Company is currently engaged in the life and disability insurance business. It is customary in the insurance industry for a portion of income to be derived from mortgage loans; however, a majority of the Company's income is attributed to mortgage loans.

Company reorganization - On February 15, 2007, American Savings Life Insurance Company purchased 325,000 shares as 100% ownership of the newly formed ASL Financial Group, Inc. for $325,000 in cash and real estate mortgage loans. ASL Financial Group then purchased 300,000 shares as 100% ownership in the newly formed American Life Financial Corporation for $300,000 in cash and real estate mortgage loans. American Life Financial Corporation has been formed to increase the Company's mortgage investing opportunities and ASL Financial Group is a holding company, which at some future date could serve as a holding company for both American Saving Life Insurance Company and American Life Financial Corporation.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments - The following Company investments are recorded in accordance with the Statement of Financial Accounting Standards No. 60, Accounting and Reporting by Insurance Enterprises:

A. Mortgage loans are reported at outstanding principal balance or amortized cost net of temporary impairments due to the reduction of the fair value of the underlying properties.

B. Receivables secured by real estate including property tax certificates of purchase are reported at their outstanding principal balance, less deferred gains, which are recognized under the installment method.

C. Real estate investments are reported at lower of cost or fair market value with the related charge to realized loss if applicable.

D. Common stock and mutual funds are reported at market and temporary changes in the market value of those securities are recognized as an unrealized gain (loss). Non-redeemable preferred stock is reported at cost.

E. Bonds are stated at amortized cost, since they are expected to be held until maturity.

F. Policy loans are reported at their outstanding principal balance.

G. Realized gains (losses) are determined on a specific identification basis and are credited (charged) to operations; unrealized gains (losses) are credited (charged) to the equity section.

Cash and cash equivalents - The company considers all highly liquid investments with a maturity of one year or less at the time of purchase to be cash equivalents.

Restricted Securities - In accordance with the State of Arizona Insurance Regulations, long term certificates of deposit with an aggregate value of $500,000 at year end in 2010 and 2009 were on deposit with the Arizona State Treasurer.

Policy Claims Pending - The liability for policy claims is based on the estimated cost of individual claims reported plus estimated claims incurred but unreported prior to December 31, 2010 and December 31, 2009 respectively.

Reinsurance - The Company had no agreements with nonaffiliated reinsurers or reinsured policies during the period covered by this report.

Estimates - The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and short-term investments** consist of the following:

| December 31, | 2010 | 2009 |
|---|---|---|
| Certificate of Deposits | 1,716,961 | 0 |
| Money market funds | 44,786 | 27,960 |
| Demand deposits | 4,530,683 | 4,037,409 |
| Total cash & short term | $6,292,430 | $4,065,369 |

## (3) CASH AND INVESTMENTS

The Company has maintained various accounts at several banks with amounts not exceeding $250,000. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 with unlimited coverage on checking accounts. Cash in some bank accounts exceeded FDIC insurance limits in the amounts of $45,532 and $1,053,102 at December 31, 2010 and 2009, respectively. The money market funds utilized by the Company invest in short-term U.S. government and commercial paper securities.

**Mortgage Loans** consist of commercial, consumer and purchase money loans collateralized by real estate. The Company has a concentration of mortgage loans in central Arizona. The Company's lending policies allow for commercial and consumer loans up to 65% of appraised values at interest rates ranging from 9.0% to 15.99% and terms ranging from 1 to 15 years. Purchase money mortgages were provided to purchasers of Company owned real estate at rates from 7% to 10%. Purchase money mortgages are shown at the Company's unamortized cost of the real estate sold. The balance of the remaining installments is unamortized deferred gain, and is excluded from the mortgage loan assets. The deferred gain will be recognized as income, only as the installment payments are received.

In 2010 the Company created a mortgage valuation allowance for nine delinquent loans whose estimated recoverable fair market value was less than the loan balance. At December 31, 2010 the valuation allowance was $418,523. Recognizing that mortgage loans with loan to value rate greater than 50% poise a higher risk of loss on default the Company also created an allowance based on the additional interest paid by these loans. At December 31, 2010 this allowance was $27,207. Both allowances reduce the mortgage loans and increase unrealized losses.

| December 31, | 2010 | 2009 |
|---|---|---|
| Commercial & consumer loans | $24,072,180 | $17,890,766 |
| Purchase Money Loans | 47,819 | 62,126 |
| Remaining Deferred Gain | 84,262 | 142,964 |
| Annual Realized Deferred Gain | $201,007 | $109,795 |

***Real Estate*** In March 2007 the Company purchased approx. 4,700 acres near Holbrook, Arizona in a real estate investment joint venture with Boa Sorte, LLC (The Cardon Group). The current book value of this property is $986,035. The company foreclosed on seven properties in 2010: A commercial store and restaurant on Chandler Blvd. in Chandler for a Company cost of $363,122, a commercial retail center in Heber for a Company cost of $180,330, 7.5 acres of residential land in Tucson for a Company cost of $318,656 which was written down to $245,000 based on a current appraisal, a single family residence in Glendale for a Company cost of $128,000,a single family residence in Phoenix for a company cost of $107,706 which was written down to $50,000 based on a current appraisal, a 1 acre parcel of residential land in north Phoenix for a Company cost of $70,000 and 2 improved residential lots in Ashfork for a Company cost of $26,070 which was written down to $20,000 based on a current appraisal.

**Land and Building** The office occupied by the company is located at 935 E. Main Street, Mesa, AZ. The Company acquired the building through a section 1031 property exchange and is valued as shown in the following schedule:

| December 31, | 2010 | 2009 |
|---|---|---|
| Building cost | $434,605 | $434,605 |
| Improvements | 131,149 | 130,435 |
| Land cost | 75,450 | 75,450 |
| | $641,204 | 636,409 |
| Less deferred gain on 1031 exchange | -446,621 | -446,621 |
| Statement value of land and building | $194,583 | $193,869 |

Since the book value of land and building does not exceed the estimate salvage value, no depreciation is taken on this property. An appraisal for this property was done in January 2007 and it was appraised at a fair market value of $1,625,000.

## (4) RESERVE FOR POLICY AND CONTRACT CLAIMS

The reserve reflects the liability for aggregate reserve amounts which, with additions from premiums to be received and with interest compounded annually at a level 5% interest assumption, are calculated to be sufficient to meet policy obligations as they mature. During second half of 2009 the Company began to offer fixed rate annuities. Annuity contracts of $10,680,133 and $2,395,728 with a reserve of $10,425,431 and $2,293,970 existed at December 31, 2010 and 2009 respectively.

## (5) GUARANTEED INTEREST CONTRACTS

Guaranteed Interest Contracts are amounts held on behalf of outside parties. Interest is paid yearly at a rate set by the Company, which is currently equal to the average 6-month CD rate as reported by the Federal Reserve. It is updated each month with a guaranteed minimum rate of 4.00%. Guaranteed Interest Contracts are held primarily by stockholders of the Company. Contracts owned by stockholders represent 81% and 85% of all contracts at December 31, 2010 and 2009 respectively.

## (6) STOCKHOLDERS' EQUITY

State of Arizona insurance regulations require the Company to keep a minimum capital of $400,000 and a minimum free surplus of $100,000. At December 31, 2010 and December 31, 2009 the Company had a capital amount of $922,607 and $921,841, respectively and a free surplus of $15,715,057 and $16,164,964, respectively. Free surplus was reduced by the $5,134,191 and $5,045,612 cost of treasury stock for years 2010 and 2009 respectively.

In March 2001, the Board of Directors authorized an open-ended offer to purchase shares of Company stock for 67% of the most recent equity value. On January 8, 2008 the Board replaced this offer with an offer to purchase up to 1,000,000 share of Company stock at 80% of the most recent equity value. On January 13, 2009 the Board increased this offer to 90% of the most recent equity value. On February 8,2011 the Board modified the offer to purchase up to 300,000 shares at 90% of the most recent equity value. The equity value is prepared monthly using GAAP standards and adjusted for any accrued dividends payable. During 2010, treasury stock increased by the purchase of 29,192 shares of capital stock at prices ranging from $3.02 to $3.08 per share. During 2009 a total of 57,891 shares were purchased at prices of $2.98 to $3.08 per share. Stockholder equity per share was $3.29 at year end 2010 and $3.37 at year end 2009.

On February 8, 2011, the Board of Directors declared a cash dividend of 9¢ per share. The payment will be on April 8, 2011 to stockholders of record on March 31, 2011. A second semi-annual dividend is expected to be declared by the Board in August and paid in October.

## (7) PARTICIPATING INSURANCE POLICIES

The allocation of dividends to participating policy owners is based on actuarial mortality rates with consideration for investment yields (which are subject to periodic review), issue ages, policy durations and premium charges. The mortality rates correspond with rates assumed in the calculation of the premium charges. Participating business comprised approximately 24% of total life insurance in force at December 31, 2010 and 23% at December 31, 2009.

## (8) RELATED PARTIES

There is a significant inter-relationship between policyholders who are also stockholders and members of Company management. Nevertheless, no related party transactions involving this group have occurred during the years ended December 31, 2010 and 2009, other than ordinary compensation, expense reimbursements and similar items incurred in the ordinary course of business, except as follows:

1. A management education loan described in the third paragraph of Note 9.
2. Life Insurance premiums paid by Company officers and directors totaled 25.27% and 24.89% of total premiums paid in 2010 and 2009, respectively. Company officers and directors also owned 10.5% and 10.5% of total policy face value in 2010 and 2009, respectively.
3. Wilford R. Cardon is a Company director and also a principal in Boa Sorte, LLC which has entered into an investment joint venture with the Company as detailed in note 3, Real Estate.

## (9) EMPLOYEE BENEFITS

**Profit Sharing Plan** - In 1993, the Company began to sponsor a qualified profit sharing plan available to full-time employees who meet the plan's eligibility requirements. The terms of the plan call for annual discretionary contributions by the Company as determined by the Board of Directors. Plan contribution was $67,850 for 2010 and $64,906 for 2009.

**Stock Benefit Plan** - In October 2007 the Company began an employee compensation in stock benefit plan available to full-time employees and directors. The terms of the plan allows employees or directors to specify up to 50% of the their total compensation to be taken as shares of company stock. The allocation price of the stock is 100% of the (non-audited) GAAP book value for the month preceding enrollment. During 2010, 7,659 shares of Company common stock were purchased under the plan for a total of $21,185. The October 2010 enrollment stock price was $3.317 and as of December 31, 2010, $8,648 of employee and directors compensation had been set aside for stock purchase.

**Employee Education Loan** - A loan for employee educational expenses of $30,000 was authorized by the Board of Directors in September 2008. $26,325 of the educational loan had been disbursed as of December 31, 2010. The balance of the loan is subject to future fringe benefit payments, and is therefore not included as an asset in this statement.

## (10) CASH FLOW RECONCILIATION

A reconciliation of net income to cash flows from operating activities is as follows:

| December 31, | 2010 | 2009 |
|---|---|---|
| Net income | $1,041,605 | $1,144,004 |
| Adjustments to reconcile net income to net cash provided from operations | | |
| Subsidiary company's net cash from operations | -1,716 | 14,710 |
| Amortization of mortgage interest | -119 | -39,843 |
| (Incr.) decr. in income tax refundable | 28,655 | 0 |
| (Increase) decrease in investment due & accrued | -59,170 | 8,115 |
| Incr. (decr.) in payables, accrued expense & other | 161,361 | 73,726 |
| Incr. (decr.) in reserves for policy & contract claims | -9,531 | -5,394 |
| Incr. (decr.) in other policyholder funds | 734 | 3,139 |
| Incr. (decr.) in income tax payable | 2,981 | -2,500 |
| Incr. (decr.) in life insurance | 28,834 | 53,031 |
| Incr. (decr.) in annuity reserve | 8,631,460 | 2,293,970 |
| (Incr.) decr. in deferred policy acquisition reserve | -305,664 | 0 |
| Incr. (decr.) in deposit to deposit type accts | 1,381,638 | 1,275,610 |
| Incr. (decr.) in net deposits to deposit type accts | -1,204,105 | -1,139,037 |
| Net realized capital gains | -130,327 | -102,763 |
| (Incr.) decr. in office equipment | 3,541 | 5,416 |
| (Incr.) decr. in prepaid expenses | -3,367 | -635 |
| Net cash from operations | $9,566,810 | $3,581,549 |

## (11) CLAIMS AND CONTINGENCIES

The Company has various legal proceedings and claims pending that are common to its operations. While it is not possible to determine the ultimate outcome of these matters, it is the opinion of management that they will not result in monetary damages that in the aggregate would be material to the business or operations of the Company.

## (12) SPECIAL NOTE - Statutory Financial Statements

Each year, the Company files another set of financial statements with the Arizona Department of Insurance and the National Association of Insurance Commissioners (NAIC). They are prepared according to Statutory Accounting Practices (SAP) requirements, and are used by state regulators to review our Company's strength. We refer to these as the "statutory" financial statements, and they are audited each year by a qualified Certified Public Accounting firm.

The statutory financial statements differ in several respects with the financial statements provided herein (referred to as the Stockholders Financial Statements). The differences include reserves for asset adequacy ($1.6 million), asset valuation ($1.3 million) and interest maintenance ($205,000). The stockholders financial statements, although unaudited, are prepared using Generally Accepted Accounting Principles. The following table shows a comparison of the financial highlights of the stockholders financial statements with the statutory financial statements:

The Company would be pleased to provide any shareholder with a copy of the audited statutory financial statements upon request.

| | 2010 ***Stockholders*** Financial Statements | 2010 ***Statutory*** Financial Statements |
|---|---|---|
| Total Assets | $35,940,253 | $34,724,215 |
| Total Liabilities | $19,302,589 | $22,546,278 |
| Total Stockholders Equity | $16,637,664 | $12,177,937 |
| Equity per Share | $3.29 | $2.41 |
| Annual Net Income | $1,041,605 | $1,012,013 |
| Net Income per Share | $0.21 | $0.20 |

## 13) UNCERTAIN TAX POSITIONS

During 2010, the Company adopted the provisions of FASB Interpretation No. 48, as codified by the Financial Accounting Standards Board. This Interpretation requires entities, including nonprofit organizations, to evaluate uncertain tax provisions and record a liability for those positions in which it is more-likely-than-not that the position would result in an additional tax liability pursuant to an examination by the Internal Revenue Service. Management evaluates annually its tax positions related to unrelated business income, and if applicable adjusts its income tax provision accordingly. As of December 31, 2010, no uncertain tax positions have been identified and accordingly, no provision has been made.

## (14) SUBSEQUENT EVENTS

Management evaluated subsequent events through March 7, 2011 the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010 but prior to March 7, 2011, that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2010.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report are forward-looking statements. Examples of forward-looking statements include (i) projections of revenues, income or lost earnings or loss per share and other financial items, (ii) statements of plans and objectives of the Company or its management, and (iii) statements of future economic performance. Words such as “believe”, “anticipates”, “expects”, “intends”, “may”, “will” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying these statements. In addition, all statements other than statements of historical facts that address activities that the Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements involve risk and uncertainties, which may cause actual results to differ materially from those in such statements.

***Moving Forward Through the Headwinds of Adversity***
***With Security and Stability***


**Board of Directors:**
Byron F. Allen   Clark E. Allen   David K. Allen   Gerald E. Dunbar   F. Grant Allen
Not shown:  Wilford A. Cardon and Heber E. Allen