

# 2003 ANNUAL REPORT

AMERICAN SAVINGS LIFE  
INSURANCE COMPANY



*Founded 1954*



## *President's Letter To The Shareholders*

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Dear shareholders,

Increased earnings this past year have permitted the Board of Directors to declare the largest dividend ever to our shareholders. Two semi-annual dividends will be paid in 2004, the first on April 12 (to all stock owners of record on March 31) and the second on October 11 (to all stock owners of record on September 30), each for 8.5¢ per share. That makes a total dividend of 17¢ per share to be paid this year (an increase of more than 6% over last year's dividend).

On April 6th this year, the Company will celebrate our first 50 years in the life insurance business. We express our sincere gratitude to you, our shareholders, for providing the initial capital, which was the foundation of our Company's secure financial position. We also convey our appreciation to our numerous policyholders who have entrusted us with their life insurance and retirement income products. Investing funds from both these sources, American Savings Life has been consistently increasing its strength and profitability for 50 years.

Compounding interest is the lifeblood of any retirement plan. While bank interest rates remain lower than most of us can recall in our lifetime, American Savings Life is paying 8% of our insurance reserves, as interest and dividends, to our "Grand Slam" policyholders. Our ability to maintain this high level of earnings is primarily due to our investments in real estate mortgages.

I invite each of you, as shareholders, to enjoy these high policyholder dividends by participating in an Insured Retirement Fund through our "Grand Slam Plan". For more information, you may either visit our website at [www.AmericanSavingsLife.com](http://www.AmericanSavingsLife.com), give us a call or come drop by the office! Whichever the case, we would be honored to demonstrate what the Grand Slam Plan can achieve for you!

Thanks so much for your continued support!

Cordially,

A handwritten signature in blue ink that reads "David K. Allen". The signature is written in a cursive, flowing style.

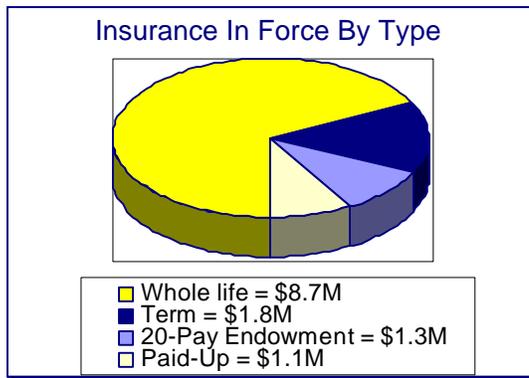
David K. Allen, President

## Management's Discussion and Analysis of Operations

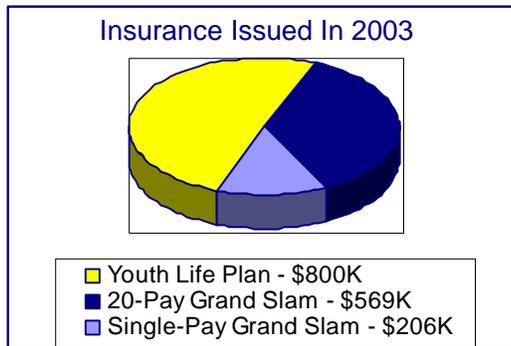
The year 2003 proved to be a most successful year for American Savings Life (the Company) on many fronts. We were successful in implementing our Company Mission of providing our stockholders the highest possible return on their investment while keeping the Company's insurance policyholders safe through secure investments. In the next couple pages we will discuss the successes we enjoyed in 2003. We will also review our success in keeping our assets invested in high yielding secure mortgage loans as well as the real estate the Company owns and has for sale. Finally, we will discuss the Company's stock buy-back offer made available throughout the year.

*Life insurance business:* During the year 2003, we saw increased sales of both our *Youth Life Plan* and both versions of our new *Grand Slam Insured Retirement Plan* (these plans are described further below).

This reflects an 8.6% increase in insurance in force from \$11,852,000 in 2002 to \$12,875,000 in 2003. Premiums earned also increased 3.4%, from \$233,225 in 2002 to \$241,158 in 2003. The first chart illustrates the types of policies in force at year end and their portion of total insurance in force at year end, 2003.



The Company currently offers three very competitive life insurance policies. This chart shows each plan's contribution to total insurance issued in 2003. These plans are: (1) The Youth Life Plan, a \$10K or \$20K whole life policy for individuals up to age 24;



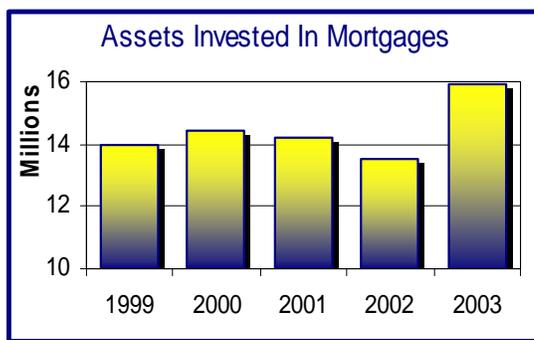
(2) The 20-Pay Grand Slam Plan, an endowment @ age 70 policy that requires premiums for only 20 years; and (3) The Single-Pay Grand Slam Plan, a single premium paid-up endowment @ age 70 policy. The Company continues to seek successful ways to further the growth of our life insurance business.

## Management's Discussion and Analysis of Operations

**Investment of assets:** The year 2003 was also a banner year for the Company's investments. We were able to achieve our objective of maintaining a majority of our assets in high yielding, but secure mortgage loan investments. At year end 2003, we had \$15.9 million in mortgages, which is 85% of our assets. This is an increase from Dec. 31, 2002, when we had 77% of our assets in mortgage loans.

During the year 2003, our mortgage loans yielded us an average interest rate of 11.5%. Our mortgage loans are exceptionally secure since on average we loan only 55% of the

value of the property. Our loans provide an important niche between conforming bank loans and high interest private sector loans. With our program, individuals not qualifying due to restrictions of a bank loan, but having strong collateral in real estate, may easily qualify for our loans.



**Real estate owned:** The Company continues to have a significant amount of potential future gain on real estate owned. Since real estate is valued in the financial statements using the "lower of cost or market" method, the stated value is much lower than the estimated current fair market value of our real estate owned. The following table shows the value of our two most valuable properties as they are shown in the following *Statement of Financial Position* as compared to their estimated current market values.

Property	Book Value As Stated In The Financial Statements	Estimated Current Fair Market Value
Home Office Building	\$162,000	\$800,000
Vekol Valley - 513 acres	\$182,000	\$1,500,000

The Company only occupies half of our home office building, allowing us to lease the remaining space. During 2003 we received \$87,632 in rents, up from \$85,404 in 2002.

**Company stock buy-back:** Since 2001, the Company has maintained an open-ended policy of buying back Company shares at 67% of the book value. During 2003, the Company purchased 95,110 shares of Company stock at prices ranging from \$1.77 to \$1.83 per share.

## STATEMENT OF OPERATIONS

(UNAUDITED)

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
<b>REVENUES</b>		
Life insurance premiums	241,158	233,225
Investment Income		
Interest on cash & cash equivalents	48,413	72,674
Interest on Mutual Funds	27,369	208
Interest on policy loans	7,761	9,484
Interest on mortgage loans	1,768,346	1,655,191
Rental income	118,808	119,840
Other investment income	180,587	110,700
Total Revenue	2,392,442	2,201,323
<b>EXPENSES</b>		
Death benefits	67,905	179,406
Other policyholder benefits	95,098	85,660
Policyholder dividends	18,840	13,599
Incr/decr in reserves and loading	78,004	64,337
Commissions and Advertising	13,471	288
Interest on insurance	59,661	46,917
General Expenses		
Salaries and wages	409,510	380,939
Welfare Plan	29,284	21,319
Profit Sharing Plan	40,956	38,094
Actuarial and accounting	23,325	23,965
Attorney and Directors fees	15,238	19,776
Office rent & utilities	66,331	68,966
Telephone, postage, printing	26,891	17,365
Other expenses	22,131	20,976
Taxes Licenses and Fees		
Real estate taxes	17,324	18,391
FICA and FUTA tax on salaries	30,048	27,815
Other taxes and fees	14,760	14,228
Total Expenses	1,028,778	1,042,041
Net Gain From Operations	1,363,664	1,159,282
Realized Gain on Real Estate & Securities	63,090	138,615
Federal Income Tax Paid	-201,500	-181,050
NET INCOME	1,225,254	1,116,848

## **STATEMENT OF FINANCIAL POSITION**

(UNAUDITED)

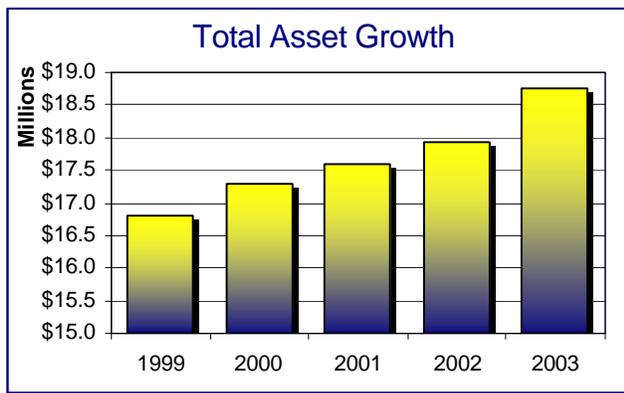
<b>ASSETS</b>	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
Cash and cash equivalents	1,106,868	2,063,175
Long term certificates of deposit	500,000	500,000
Mutual Funds owned	287,198	999,175
Common & preferred stock	34,419	29,500
Policy loans	150,726	179,876
Mortgage loans	15,966,317	13,493,699
Employee notes	2,331	2,440
Real estate investments & receivables	296,096	210,674
Property tax CP's	64,571	109,761
Total Cash & Investments	18,408,526	17,588,301
Accrued interest & deposits	154,789	164,245
Income tax refundable	0	34,862
Land and building	162,085	148,715
Office equipment	15,620	10,234
Total Assets	18,741,020	17,946,357
<b>LIABILITIES</b>		
Reserves for life policies	2,107,139	2,027,879
Insurance policy claims pending	19,050	34,593
Policy holder & GIC funds on deposit	1,582,247	1,256,097
Other policy holder liabilities	25,371	18,844
Taxes & expenses due & accrued	79,341	70,447
Unearned investment income	153,878	28,857
Amounts held by ASLIC for others	388,489	363,916
Income tax payable	20,909	0
Total Liabilities	4,376,424	3,800,633
<b>SHAREHOLDERS EQUITY</b>		
Capital stock	914,933	914,933
Capital stock in excess of par	2,205,412	2,205,412
Stock notes & Employee receivables	-31,240	-39,232
Retained earnings	15,799,138	15,421,604
Unrealized gain on securities	20,347	15,277
Less treasury stock	-4,543,995	-4,372,270
Total Shareholders Equity	14,364,596	14,145,724
Total Liabilities and Shareholders Equity	18,741,020	17,946,357

## STATEMENT OF CASH FLOWS

(UNAUDITED)

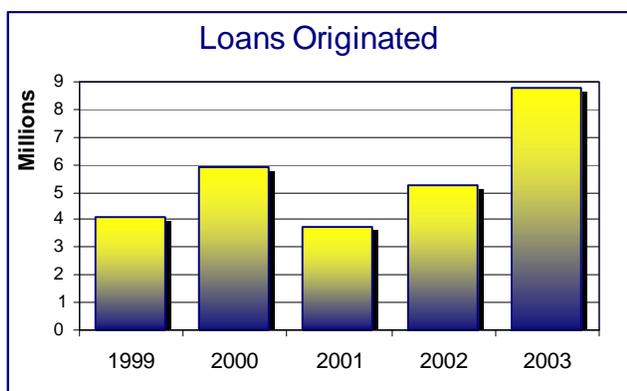
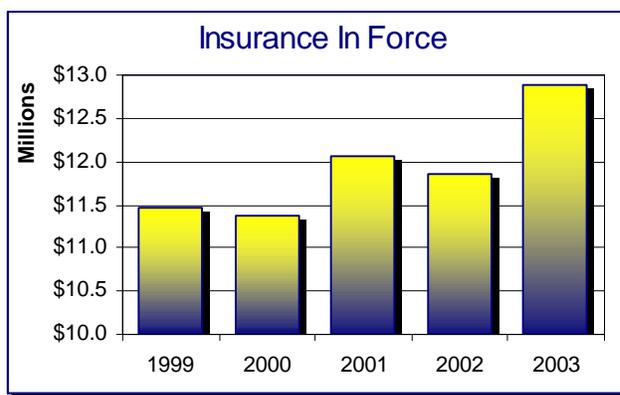
<b>OPERATING ACTIVITIES</b>	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
Premiums received	243,566	233,141
Investment and other income received (excluding realized gains and net of investment expenses)	2,270,400	1,899,493
Total funds provided from operations	2,513,966	2,132,634
Benefits and loss related payments	-238,363	-306,666
Commissions and other expenses and taxes paid (excluding federal income taxes)	-606,062	-526,419
Dividends paid to policyholders	-13,465	-8,573
Federal income taxes paid (excluding capital gains tax of \$15,438 and \$23,008 in 2003 and 2002 respectively)	-145,729	-238,859
Total funds (used) in operations	-1,003,619	-1,080,517
Net cash provided from operations	1,510,347	1,052,117
<b>INVESTING ACTIVITIES</b>		
<i>Proceeds from investments sold, matured or repaid</i>		
Class one mutual funds & long-term CD's	3,075,000	440,000
Stocks	0	5
Mortgage loans	6,146,610	6,014,902
Real estate	18,147	69,272
Other invested assets	120,112	43,798
Total investment proceeds	9,359,869	6,567,977
<i>Cost of long-term investments acquired</i>		
Class one mutual funds & long-term CD's	-2,474,344	-1,400,208
Mortgage Loans	-8,544,665	-5,198,097
Real Estate	-116,939	-13,506
Other invested assets	-66,769	-101,382
Total investments acquired	-11,202,717	-6,713,193
(Increase) Decrease in policy loans	29,150	24,777
Net cash (used) by investing assets	-1,813,698	-120,439
<b>FINANCING ACTIVITIES</b>		
<i>(Other cash provided or applied)</i>		
Net deposits on deposit-type contract funds	266,489	42,889
Cash dividends paid	-847,719	-853,102
Treasury stock purchased	-171,726	-48,979
Net cash (used) by financing activities	-752,956	-859,192
Increase (Decrease) in cash & cash equivalents	-1,056,307	72,486
Cash and cash equivalents, beginning of year	2,163,175	2,090,689
Cash and cash equivalents, end of year	1,106,868	2,163,175

## Financial Highlights



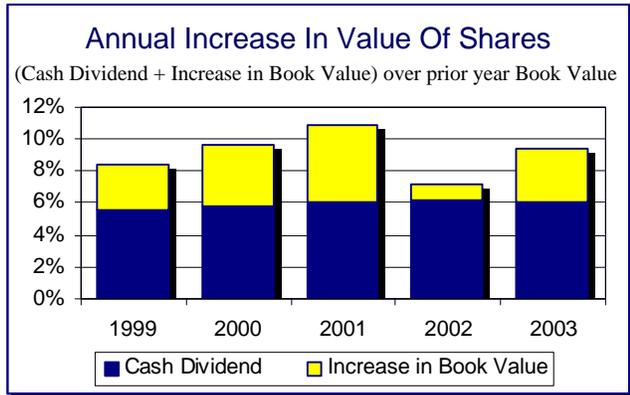
Total assets have grown from \$16.8 million in 1999 to \$18.8 million in 2003, an increase of 11.6%. Even during the country's recession these past few years, the Company has maintained consistent growth.

Insurance in force (the total face amount of all insurance policies) has increased 12.3% in the last 5 years. Insurance in force at year end 2003 increased 8.6% over prior year end 2002.



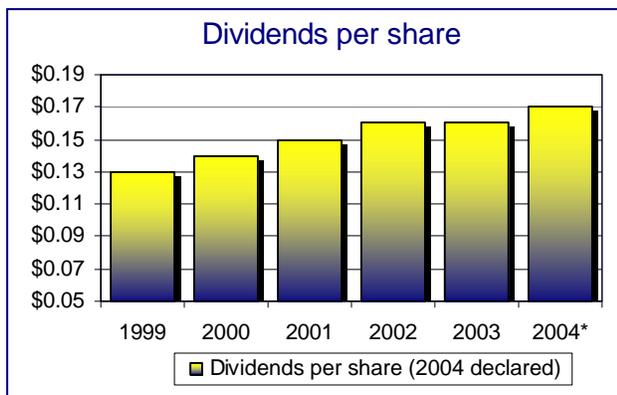
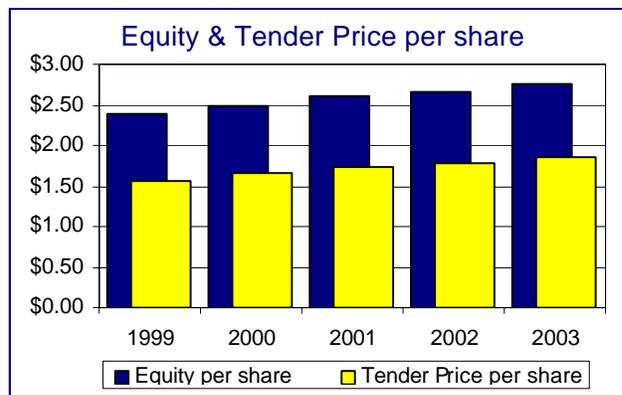
The Company originated (made) a record \$8.6 million of loans in 2003. Since these loans yield an average interest rate of 11.4%, they are an important contributor to the Company's earnings.

## Financial Highlights



In 2003, American Savings Life shareholders received an increase of 9.4% over prior year book value, 6% of which was cash dividends paid. This annual increase has averaged 9.1% over the past 5 years.

The equity value (book value) per share has consistently increased from \$2.40 to \$2.75 per share since 1999, and the tender (Company stock purchase) price has grown from \$1.55 in 1999 to \$1.83 in 2003.



Dividends per share have increased from 13¢ in 1999 to 17¢ for 2004 (declared to be paid in equal parts in April & October, 2004). This is a 31% increase in dividends since 1999.

## STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND 2002

	Capital Stock	Capital in Excess of Par	Unrealized Net Gain on Marketable Securities	Unassigned Surplus	Receivables from the Sale of Capital Stock	Treasury Stock	Total
<b>BALANCES, December 31, 2001</b>	914,933	2,205,412	18,997	15,157,858	-31,438	-4,323,291	13,942,471
Net Income				1,116,847			1,116,847
Dividends declared & accrued				-853,101			-853,101
Repurchase Capital Stock (Treasury)						-48,979	-48,979
Change Unrealized Gain on Securities			-3,720				-3,720
Change in No admitted Assets					-7,794		-7,794
<b>BALANCES, December 31, 2002</b>	914,933	2,205,412	15,277	15,421,604	-39,232	-4,372,270	14,145,724
Net Income				1,225,253			1,225,253
Dividends declared & accrued				-847,719			-847,719
Repurchase Capital Stock (Treasury)						-171,726	-171,726
Change Unrealized Gain on Securities			5,071				5,071
Change in Non-admitted Assets					7,993		7,993
<b>BALANCES, December 31, 2003</b>	914,933	2,205,412	20,348	15,799,139	-31,239	-4,543,996	14,364,596

## **NOTES TO THE FINANCIAL STATEMENTS**

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(UNAUDITED)

### **(1) ORGANIZATION:**

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American Savings Life Insurance Company (the 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.

### **(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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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.
- 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 2002 and 2003 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, 2003 and December 31, 2002 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, liabili-

ties, 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.

### (3) CASH AND INVESTMENTS:

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

	December 31	<u>2003</u>	<u>2002</u>
Certificates of deposit		\$297,010	\$1,585,995
Money market funds		493,243	275,289
Demand deposits		<u>316,615</u>	<u>301,891</u>
Total cash & short term investments		<b>\$1,106,868</b>	<b>\$2,163,175</b>

The Company maintains certificates of deposit at several banks with amounts not exceeding \$100,000. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. Cash in some bank demand deposits exceeded FDIC insurance limits in the amounts of \$131,339 and \$3,096 at December 31, 2003 and 2002, 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 and consumer loans collateralized by real estate. The Company's lending policies are to lend up to 65% of appraised values at interest rates ranging from 10.9% to 13.5% and terms ranging from 5 to 15 years. Purchase money mortgages were provided to purchasers of Company owned property at rates as low as 7% during 2002 and 2003. The Company has a concentration of mortgage loans in central Arizona.

**Properties occupied by the Company** consists of land and a building 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	<u>2003</u>	<u>2002</u>
Building cost		\$434,605	\$434,605
Improvements		98,468	85,098
Land cost		<u>75,633</u>	<u>75,633</u>
		<b>608,706</b>	<b>595,336</b>
Less deferred gain on 1031 exchange		<u>-446,621</u>	<u>-446,621</u>
Statement value of land and building		<b>162,085</b>	<b>148,715</b>

Since the book value of land and building does not exceed the estimate salvage value, no depreciation is taken on this property. Management estimates the fair market value of this property to be \$800,000.

### (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.

## (5) GUARANTEED INVESTMENT CONTRACTS :

Guaranteed investment contracts are amounts held on behalf of outside parties. Interest is paid yearly at a rate equal to 90% of the rate earned by the Company on certificates of deposit and is recalculated each month with a guaranteed minimum rate of 4.00%. Guaranteed investment contracts are held primarily by stockholders of the Company. Contracts owned by stockholders represent 86% and 90% of all contracts at December 31, 2003 and 2002 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, 2003 and December 31, 2002 the Company had a capital amount of \$914,933 and a free surplus of \$13,449,662 and \$13,230,791, respectively. Free surplus was reduced by the \$4,543,995 and \$4,372,270 cost of treasury stock for years 2003 and 2002 respectively.

In March 2001, the Board of Directors authorized an open-ended offer to purchase shares of American Savings Life Insurance stock for 67% of the most recent equity value. The equity value is prepared monthly using GAAP standards and adjusted for any accrued dividends payable. During 2003, treasury stock increased by the purchase of 95,110 shares of capital stock at prices ranging from \$1.77 to \$1.83 per share. During 2002 a total of 28,181 shares were purchased at prices of \$1.72 to \$1.79 per share.

On January 13, 2004, the Board of Directors declared a cash dividend of 17¢ per share payable in two payments of 8.5¢ per share. The first payment will be on April 12, 2004 to stockholders of record on March 31, 2004, and the second on October 11, 2004 to stockholders of record on September 30, 2004.

## (7) CASH FLOW RECONCILIATION:

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

	December 31,	2003	2002
Net income		\$1,225,253	\$1,116,847
Adjustments to reconcile net income to net cash provided from operations			
Amortization of bond discount		0	-1,064
(Increase) decrease in investment due & accrued		10,262	-317
(Incr.) decr. In income tax refundable		34,862	-34,862
Incr. (decr.) in payables, accrued expense & other		158,486	11,177
Incr. (decr.) in reserves for policy & contract claims		-15,543	4,055
Incr. (decr.) in other policyholder funds		6,527	4,828
Incr. (decr.) in income tax payable		20,909	-22,947
Incr. (decr.) in life insurance reserve		79,260	64,449
Incr. (decr.) in deposit to deposit type accts		326,150	89,807
Incr. (decr.) in net deposits to deposit type accts		-266,490	-42,889
Net realized capital gains		-47,652	-115,607
Income tax on capital gains		-15,438	-23,008
(Incr.) decr. In office equipment		-5,385	1,637
(Incr.) decr. In prepaid expenses		-854	11
Net cash from operations		1,510,347	1,052,117

#### (8) 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), issues ages, policy durations and premium charges. The mortality rates correspond with rates assumed in the calculation of the premium charges. Participating business comprised approximately 19% of total life insurance in force at December 31, 2003 and 14% at December 31, 2002.

#### (9) RELATED PARTIES:

Although there is a significant inter-relationship between policyholders who are also stockholders and members of Company management, no related party transactions involving this group have occurred during the years ended December 31, 2003 and 2002, other than ordinary compensation, expense reimbursements and similar items incurred in the ordinary course of business, except as follows:

1. During 2001, the Board of Directors authorized advances to the Company Financial Officer for the purpose of obtaining an MBA from Arizona State University, having deemed the additional education necessary to fulfill his corporate responsibilities. The total amount of the loan was not to exceed \$30,000. Byron Allen successfully completed his MBA during 2003 and a total of \$28,132 was advanced. As a working condition fringe benefit, the Board has agreed to waive 90% of each of the five annual payments as long as he remains employed by the Company. \$5,244 was waived in 2003. The remaining balance of this loan is \$23,305. Accordingly, that 90% has been non-admitted for purposes of this statement. The remaining \$2,331 balance is included with other invested assets.
2. Insurance premiums paid by Company officers and directors totaled 35.3% and 53.6% of total premiums paid in 2003 and 2002, respectively. Company officers and directors also owned 7.8% and 7.7% of total policy face value in 2003 and 2002, respectively.

#### (10) EMPLOYEE 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. The plan contribution was \$40,956 for 2003 and \$38,094 for 2002.

#### (11) CLAIMS AND CONTINGENCIES:

The Company is involved in a possible claim by a trustee of a corporation in which the Company previously held bonds for the return of distributions. Should the courts require reimbursement, the Company estimates that a potential loss could range from \$80,000 to \$100,000.

The Company has various other 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 and Utah Departments of Insurance and the National Association of Insurance Commissioners (NAIC). They are prepared according to statutory (state law) 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 your stockholders financial statements. The stockholders financial statements, although unaudited, are prepared using generally accepted accounting principles. The following table shows a comparison of the financial highlights of your stockholders financial statements with the statutory financial statements:

	<u>2003 Stockholders Financial Statements</u>	<u>2003 Statutory Financial Statements</u>
Total Assets	\$18,741,020	\$19,204,065
Total Liabilities	4,376,424	5,973,674
Total Stockholders Equity	14,364,596	13,230,391
# Shares Outstanding	5,223,575	5,223,575
Equity per Share	\$ 2.75	\$ 2.53
Annual Net Income	1,225,253	1,315,563
Net Income per Share	\$ 0.23	\$ 0.25

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



1954 to 2004

**AMERICAN SAVINGS LIFE  
INSURANCE COMPANY**

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