



North Coast Life

ANNUAL REPORT TO STOCKHOLDERS FOR 1998



Pictured is the front of your Company's Home Office Building at West 1116 Riverside Avenue in Spokane. This building, the former Elks Club, was designed by the noted architect Kirtland Cutter and was constructed between 1919 and 1921. The building is listed on the National Register of Historic Buildings, and is within the Riverside Historic District. Your Company occupies the upper level of the building. The first floor is leased to the Attorney General of the State of Washington

DIRECTORS

Ronald D. Andrews
Thomas V. Atwater
Robert E. Blair

Laurence G. Egger
William C. Fix
Warren C. Heylman

Dennis E. Kraft
Preston E. Macy
Douglas H. Ogden

C. Robert Ogden
Robert J. Ogden
W. Robert Shapton

OFFICERS AND MANAGEMENT PERSONNEL

C. Robert Ogden, J.D.
President
Since 1965

Robert E. Blair
Senior Vice President – Sales
Since 1965

Richard D. Hillier
Senior Field Vice President -Sales
Since 1978

Robert J. Ogden
Vice President
Insurance Operations
Since 1989

Clifford D. Kutsch
Secretary – Director of
Agency Administration and
General Services
Since 1965

Gavin J. Cooley, CPA
Treasurer
Since 1990

Samuel C. Luke
Regional Vice President – Sales
Since 1985

Paul P. Arakelyan
Regional Vice President – Sales
Since 1999

Delores J. Dressel, FLMI
Vice President –
Policy Service and Claims
Since 1971

Carol A. Maynard, FLMI
Vice President
and Senior Underwriter
Since 1980

David E. Thrans
Assistant Vice President
Computer Services and
Operations
Since 1983

Christine D. Lyon, FLMI
Assistant Vice President
Program Analysis and
Programming
Since 1984

Jay W. Townsend, FLMI,
ACS
Assistant Vice President
Micro Services and Networks
Since 1985

Linda E. Hand, FLMI
Assistant Secretary – Stock
Transfer and Word Processing
Since 1974

Robin L. Johnston, CPA
Assistant Treasurer
Since 1992

Gary L. Noland, M.D.
Medical Director
Since 1995

Barbara J. Murphy
Director of
Policy Service
Since 1967

Linda J. Thompson
Director of
New Business
Since 1969

Sharon G. Gustafson, FLMI
Director of Accounting
Since 1987

Terry F. Olsen, FLMI
Director of Actuarial Services
Since 1982

HIGHLIGHTS

	1998	1997
NET GAIN FROM OPERATIONS	\$ 708,766	\$ 447,836
PAID NEW LIFE INSURANCE	\$ 108,150,817	\$ 92,763,941
(FACE AMOUNT)		
INSURANCE IN FORCE	\$ 646,819,504	\$625,395,311
(FACE AMOUNT)		
ASSETS	\$ 81,504,553	\$ 78,189,503
ASSET RESERVES		
ASSET VALUATION RESERVE (AVR)	\$ 861,356	\$ 855,516
INTEREST MAINTENANCE RESERVE (IMR) ..	\$ 2,447,682	\$ 1,860,057
STATUTORY CAPITAL AND SURPLUS	\$ 4,693,490	\$ 4,433,340
RISK BASED CAPITAL RATIO	485%	431%
INVESTMENT RATE OF BONDS AND PREFERRED STOCK	8.27%	8.40%
AVERAGE SIZE LIFE CASE	\$ 87,429	\$ 79,968
(FACE AMOUNT)		
RETURN ON EQUITY	16.0%	10.1%

A LETTER FROM THE PRESIDENT

In 1998 we continued our plan of “controlled growth”, which is to increase our sales and insurance in force while also achieving a statutory operating gain without the invasion of surplus. I am pleased to report that we achieved those goals again in 1998.

Your Company operated in 1998 at a net gain from operations of \$708,766 after dividends to policyholders and the preferred shareholders and federal income taxes and before realized capital gains or losses as compared to \$447,836 in 1997.

Paid new life insurance sales for 1998 were \$108,150,817 face amount, a gain of 16.6% over the \$92,763,941 of paid sales in 1997. Annuity sales for the year, however, of \$479,938 in new premium returned to the level of 1996 and 1995 from \$982,022 in 1997. Comments concerning new annuity policies planned for introduction in 1999 appear elsewhere in this Report.

Total insurance in force increased to \$646,819,504 from \$625,395,311, with gross annualized life insurance premiums again moving up. Because we are writing term life insurance today mostly as riders to base ordinary policies rather than as separate insurance contracts, a change made possible by our new “Life-Style Term” portfolio which we explained to you in our Annual Report last year, the number of policies in force declined slightly during the year. Because of these riders, however, the average size case increased to \$87,429 face amount from \$79,969 in 1997.

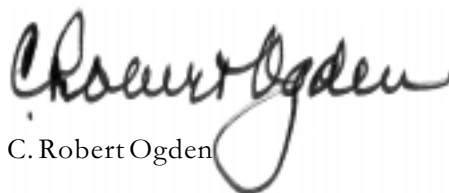
Our Company’s total assets increased to \$81,564,553 from \$78,189,503 at the end of 1997, with capital and surplus increasing 5.8% to \$4,693,490 from \$4,433,340 at the end of 1997. In addition, the Company’s Interest Maintenance (IMR) and Asset Valuation (AVR) reserves increased nearly \$600,000; the IMR increased to \$2,447,682 from \$1,860,057 and the AVR to \$861,356 from \$855,516. Both of these reserves are allocations of surplus, and the AVR is considered a part of stockholders’ equity.

The Company’s Risk Based Capital ratio increased to 485% at the end of 1998 from 431% at the end of 1997. As we have explained in previous annual reports, the Risk Based Capital ratio was introduced in 1993 as one of the most important regulatory changes in the life insurance industry in decades. Having a sufficient Risk Based Capital ratio simply means having a large enough capital base to support the investment and insurance risk of the Company. Every company is required to maintain a Risk Based Capital ratio of at least 250%. Below that level a company must submit to its regulatory authority (the State Insurance Commissioner) a plan for increasing its Risk Based Capital to at least 250%, and, if a company’s Risk Based Capital falls too low (100%), the company can be placed in rehabilitation. We have a reasonable margin of RBC.

The Company obtained an average yield to maturity without consideration for early redemption of 8.27% on all new bonds and preferred stocks purchased during 1998, which was a slight reduction from the 8.40% achieved in 1997. During 1998 the Federal Reserve Board pushed interest rates down in order to maintain the momentum of the economy, and during the year your Company reduced the interest rates applied on its interest-sensitive products in order to maintain our necessary margins for expenses and profitability.

In 1999 your Company is planning a sales growth of approximately 10% to a level of about \$118 million of paid sales of life insurance. We believe that this growth can once again be achieved in the “controlled growth” mode in which we also have a statutory operating gain and do not invade surplus. Comments with respect to our sales plans and products that we expect to introduce will follow in other parts of this report, together with further comments on financial results and other Company plans.

We look forward to a good year again in 1999.



C. Robert Ogden

INVESTMENTS

As of December 31, 1998, the Company's investment portfolio consisted of \$45,792,962 of bonds having a market value of \$45,659,807, and \$7,573,004 of preferred stocks having a market value of \$7,369,597. The market value of our securities fluctuates slightly depending upon the level of interest rates. The Company held no surplus notes of other insurance companies or other entities, no common stocks, and no tax-free municipal bonds, CMOs or other derivative instruments. The mortgage loan portfolio was \$10,810,602 plus \$792,392 of net admitted assets in real estate owned representing residential properties in Alabama (largely rented), \$1,575,548 in a partnership interest in the Home Office Building, and \$11,076,195 in policy loans and liens.

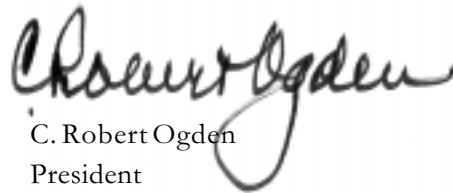
Our mortgage loan real estate owned (properties defaulted to us) was \$1,782,805 at the end of 1997. During 1998 we disposed of a number of those properties, and at year end the figure was \$792,392.

The Company obtained an average yield to maturity without consideration for early redemption of 8.27% on new bonds and preferred stocks purchased in 1998 as opposed to 8.40% in 1997. Your Company purchases only securities in NAIC Classes 1 and 2, which are all investment grade, but at the end of 1998 our holdings below Class 2 were \$1,141,922 consisting largely of preferred stocks which had been downgraded to Class 3. Some of these securities have been sold since the end of the year. None of the Company's securities is in any danger of default.

Our mortgage loan portfolio has continued to decline because of payoffs, but the Company continues to purchase individual mortgage loans around Spokane where we can maintain surveillance of the properties. We write only first mortgage residential loans in which the Company has approximately a 70% loan to value ratio, and we have been obtaining an average yield after expenses of 9.5%.

The Company maintains a partnership interest in West 1124 Riverside Avenue Partners, which owns one of the two buildings in which your Company's home office is located. The two partnerships which own the buildings currently are engaged in the refinancing of the loans on the buildings at reduced interest rates, which we anticipate will allow the West 1124 Riverside Partnership to earn a sufficient amount of money to begin reducing your Company's interest in that building. The Company will invest those funds and add to its earnings.

While the Board of Directors has authorized the amendment of the Company's "Statement of Investment Philosophy" to include the purchase of an equity portfolio in an amount of no more than \$1.25 million, the Directors elected not to establish such a portfolio considering the unsettled conditions of the stock market during 1998. This decision will be reviewed again in 1999.


C. Robert Ogden
President

PRODUCTS AND PRODUCT DEVELOPMENT

The Company's current product portfolio covers four insurance markets: interest-sensitive whole life, whole life, term and flexible premium deferred annuities, all on a non-participating basis. In 1999, we will be expanding our product line to include a single premium immediate annuity (SPIA) and four single premium deferred annuities (SPDAs).

The SPIA plan is most often used to help fund someone's retirement and provides for periodic payments monthly, quarterly, semi-annually or annually for a guaranteed length of time. Guaranteed periods include 5 years, 10 years, 15 years, 20 years and the number of payments required to refund the consideration. The frequency of payments and the guaranteed period will be selected on the application.

The expansion into SPDAs will better serve our primary annuity market of Tax Sheltered Annuities (TSAs), where a school district employee automatically deducts monies on a regular basis to go in their annuity for retirement savings. When a teacher retires they typically move their retirement funds out of the school district's TSA. If their age is less than 59½ they cannot touch their TSA annuity until that time without incurring a 10% I.R.S. penalty. By offering a SPDA plan that has a shortened surrender charge schedule, they have a place to invest their TSA with a time frame convenient to them. Our current flexible premium annuities have nine year surrender charge schedules. With the new SPDAs, the applicant can elect a 3 year, 5 year, 7 year or 9 year surrender charge schedule to better serve their retirement date needs. The respective initial surrender charges are 3%, 5%, 7% and 10%, each decreasing 1% per year to zero. Having a SPDA structured for large initial premiums is also needed. Our flexible annuities have been used for this purpose, but we plan on limiting the initial deposit amount on these plans once we begin selling the SPDA's, which have a minimum premium of \$5,000.

The illustration software and in-house administration software for the SPDA and immediate annuity plans are near completion. We will begin selling the new annuity plans as soon as they are filed and approved in all the states we do business in. We currently are waiting to hear back from Washington state for approval of our SPDAs. The SPIA form has been approved.

The Company market leader continues to be interest-sensitive whole life, distributed under the trademarked name "Versatile Life." Versatile Life plans with one or two term riders attached have become our most popular sellers and have contributed to an increase in our average policy face amount from \$70,115 during 1995, before the new term riders were introduced, to \$79,969 in 1997, and \$87,429 in 1998. The 15-year and 20-year renewable level term riders match the popular 15-pay and 20-pay Versatile Life plans and are part of an increasingly popular "family plan" marketing package, where one Versatile Life policy with one \$35 policy fee covers the entire family. The extra face amount provided by the term riders at an affordable price is essential for family protection needs that include, among other things, income and home mortgage protection. As interest rates have dropped over the last twelve years the addition of level term riders has helped keep the Versatile Life plans affordable while providing the face amount needed for family protection. Product affordability for the "mom and pop" policyholder market we serve continues to be a focus of our product enhancement and development efforts.

The Roth IRA endorsement can now be attached to our FPIA-II flexible premium annuity plan and resulted in the majority of new paid IRA annuity premiums in 1998.

The reversionary annuity, which we have discussed with you previously, was delayed because of the necessity of revising our annuity software programs and making them Year 2000 compliant. This has now been accomplished, and the software system for the reversionary annuity is underway. We anticipate introducing that product to our agents in California along with the new single premium annuities. Because the nature of this product can be easily explained and it does not need to be underwritten, we believe the reversionary annuity will also adapt itself well to alternative distribution channels such as direct mail and sales on the Internet. We currently are reviewing the details of how this could be accomplished.

I mentioned earlier that the affordability of our products is a focus of current product enhancements and development. With the help of our consulting actuary, Tony Hollobon, and our reinsurer, Transamerica, we are working on developing rates per thousand based on a preferred underwriting class for the Versatile Life, Whole Life I, and Life-style Term product lines, which also includes the level term riders used on our permanent plans. Most companies today offer preferred underwriting. We have not had agents request this, but it is an important option in today's marketplace and we believe it will help us attract new agents, as well as offer more affordable and competitive products. We do not plan to have multiple classifications of preferred risk (such as five or six, as some companies do) as we are unable to compete in the "jumbo term" area with companies that have very high retention limits and, because they do not need to buy reinsurance, can have very low term insurance rates.

We are also exploring ways to create a more affordable initial premium Versatile Life ordinary life plan. The plan would have minimal cash value buildup by increasing the premiums gradually every five years, thus keeping the reserve requirements at a minimum.

We do not anticipate changing the distribution channels for our traditional products, although, as we have advised you before, we have experimented in the last few years with the sale of term life insurance through newspaper inserts. We expect to continue this sales technique especially where we have an agent who is willing to promptly pursue each of the mailback cards included in the insert. Most recently, we have developed a direct mail mortgage lead generation program on our in-house AS/400 computer. A computer disk with the names and addresses of new home mortgage loans or refinancings is obtained from a title company for the area an agent wishes to work. This information is loaded into a database file on the AS/400, which prints letters tailored to the specific mortgage holder, offering a mortgage protection life insurance plan from North Coast Life. We will typically mail 500 of these each week from the home office with a business return envelope. When the information reply card is returned, the agent is notified and given the lead.

The Year 2000 compliance project has taken priority over some of our projects in product development. I am pleased to report that your Company has only a few minor Year 2000 compliance issues remaining and we are on track for full compliance by June, 1999.



Robert J. Ogden
Vice President Insurance Operations

ANALYSIS OF OPERATIONS AND FINANCIAL STATEMENTS

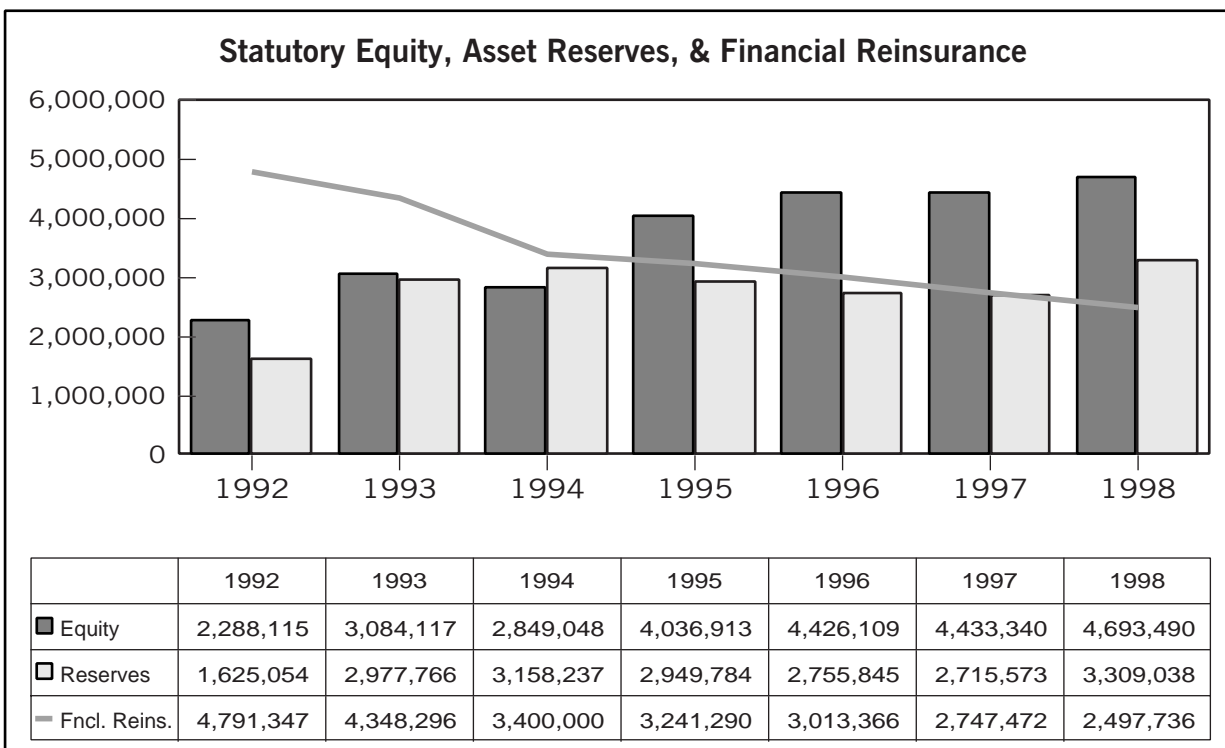
The year 1998 was very good for North Coast as the Company posted solid earnings and strong sales increases. Other key financial areas experienced similar improvements for the year as well.

The financial statements displayed herein, are prepared on the basis of Statutory Accounting Principles (also known as regulatory accounting). The Company also prepares its statements on the basis of Generally Accepted Accounting Principles (GAAP). The Company's GAAP financial statements may be viewed on the Company's web site: www.nclife.com.

Based largely on the strength of \$522,117 in net income, the Company posted a 5.9% increase in its equity accounts which moved from \$4.4 to \$4.7 million. Management is pleased with this increase, particularly in the context of the additional and significant improvements in other areas of the Company's operations.

The Company's premium from life policies increased for the second consecutive year, increasing to \$6.4 million for 1998. The increase fit well within management's "controlled growth" objective, which was adopted beginning in 1993 to facilitate an increased focus on the quality of new business. In addition, moderate levels of higher quality business are conducive to higher profits, which, under statutory accounting, are strained by the costs of issuing new policies. Other sales factors were also positive including 1998 increases in life insurance in-force from \$625 to \$647 million and paid ordinary life sales from \$93 to \$108 million.

Shareholder value was enhanced in a number of areas beyond the Company's profitability and sales growth as may be seen from the following graph:



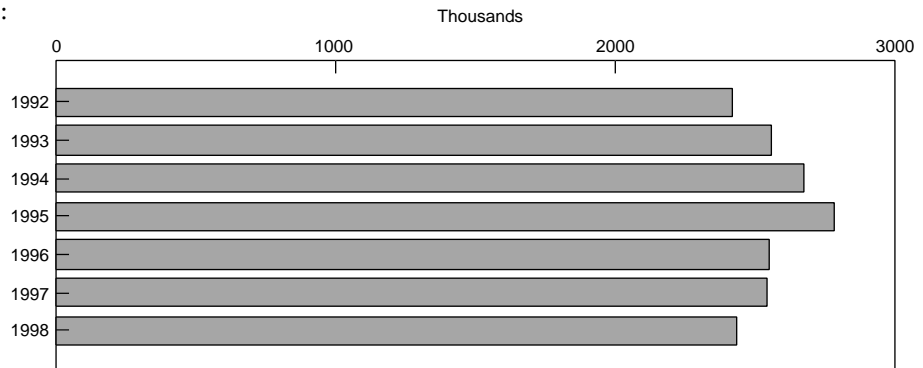
The bars on the graph depict not only the significant increases in the Company's equity accounts but also the strong allocations made to asset reserves, including a 22% increase during 1998. These reserves are appropriations of the Company's equity accounts in support of the Company's invested assets. Management believes the current level of asset reserves provides outstanding asset protection particularly as the substantial increases in these reserves have occurred even as the Company has improved the quality of its invested assets.

The line on the graph on page 5 shows the dramatic decrease in the Company's use of Financial Reinsurance. Financial Reinsurance protects companies from various types of negative experience which might occur with respect to their life insurance in-force and also provides a form of advance payment to companies of certain costs incurred when issuing new life policies. As North Coast has pursued its "controlled growth" strategy (discussed above), and also as the Company has grown financially stronger, management has found less need for the use of Financial Reinsurance. The result has been a 43% decrease in the Company's balances outstanding over the past five years and a 9% decrease during 1998.

A significant and broad measure of a Company's financial stability is known as "Risk Based Capital". Risk Based Capital is a regulatory tool developed to provide an early warning for companies in financial difficulty. The underlying Risk Based Capital formula assigns specific capital requirements to a wide range of specific risk categories on an individual company basis; the result is a ratio which triggers certain regulatory responses beginning at ratios at or below 250%. The Company's ratio for 1998 increased a strong 12.5% moving from 431% to 485%. Since the inception of Risk Based Capital in 1993 the Company has seen strong increases in its "Risk Based Capital Ratio" as may be seen on the following table. In addition to the regular increases in the RBC percentages, it may be noted that Authorized Control Level Capital has decreased; this is a positive indicator that generally demonstrates management's success in lowering the risk associated with its invested assets.

	1998	1997	1996	1995	1994
Total Adjusted Capital	5,557,971	5,292,106	5,595,500	5,071,070	3,952,045
Authorized Control Capital	1,146,405	1,229,242	1,326,917	1,298,550	1,326,493
RBC Ratio	485%	431%	414%	391%	298%

Attention to expenses is, as always, a top priority. Management is pleased with its efforts to contain general expense levels in recent years. General expenses in 1998 were held to the lowest level in the past five years as may be seen from the following graph:



The Company's financial function continues to benefit from advances in computer technology. This year's installation of a second home office network has provided advanced file sharing capabilities and high speed internet connections. Management remains committed to obtaining substantial cost and efficiency benefits from the ongoing effective and innovative use of desktop and centralized computer resources.

Gavin J. Cooley
Treasurer

LOOKING AHEAD

At December 31, 1998, we had 232 common stockholders and 325 preferred stockholders. At that time we were represented by 185 General Agents, Agents and Brokers. During 1998 we experienced an especially large growth in our sales in the state of California. California has made a very strong economic recovery, and our business there has strengthened considerably. As we have mentioned before, California is the largest state in our twelve state territory, and the strength or weakness of California affects all of the western states. We anticipate that our sales in California will remain strong in 1999. We will continue to actively recruit agents and to do business in the twelve western states of Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming, and also in Guam and the Commonwealth of the Northern Marianas as well as in the Marshall Islands to the east of Guam. We are contemplating reentering the Alaskan market.

To the best of our knowledge our common stock continues to sell at \$5.50 per share bid and \$5.75 asked, and the last recorded sale of our preferred stock on the NASDAQ "Small Cap" report in the Wall Street Journal was at \$10.75 on March 2, 1999.

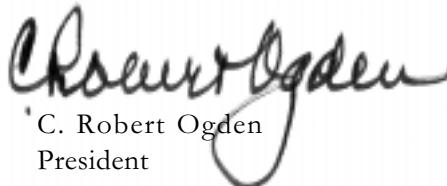
During 1998 we issued 40,000 new shares of common stock at \$5.00 per share in response to the exercise of warrants held by our common shareholders. We have received a Solicitation Permit from the Washington State Insurance Department which allows these warrants to be exercised. Because the sale was made to an officer of the Company, we did not need to have an Offering Circular in place to permit it. However, we anticipate the publication and SEC filing during 1999 of an Offering Circular which will cover the exercise of the warrants by all the holders between now and the warrants' expiration date at the end of 2001.

We anticipate that during 1999 the economy will begin to slow down and that toward the end of the year the Federal Reserve may again reduce interest rates. We recognize that this is in contrast to some economic views. The U. S. economy continues to grow above its trend pace, but inflation remains remarkably well behaved. At the time of this writing, March 5, 1999, it appears that a number of domestic sources of inflation are counterbalancing the deflationary forces coming from abroad. The fallout from the Asian crisis has not yet run its full course, in our opinion. Non-Japan Asia appears to have weathered the worst of the recession and industrial production has picked up in some countries, particularly in Thailand and Malaysia. Domestic demand in the region, however, continues to languish. Japan and China together make up about 80% of Asia's gross domestic product, and the prospects in both countries appear bleak for at least another year. Latin America is only just beginning to adjust to the Asian crisis and further shocks like the devaluation in Brazil may yet occur in South America and further reduce U.S. exports. We believe that the profit squeeze on American companies will continue and lead to a "soft landing" in our economy. We believe this will allow the Fed to resume a policy of easing interest rates later this year.

We continue to believe that over the next fifteen years the major demographic trends will be a low birth rate, an increase in the aging population, higher immigration, and a rising percentage of racial minorities. The sun belt states of California, Florida, Texas and Arizona we believe will continue to be the fastest growing states, and we do business in two of those and particularly in California which is the largest life insurance market in the nation. We think that the public in 1999 is going to continue to feel prosperous and that will result in a good atmosphere in which to sell our products.

The review of our systems for Year 2000 problems has had the added effect of helping us to consolidate functions and more highly computerize our operations. I want to express my continued appreciation for the loyalty of our Home Office employees. Nearly 60% of our employees are stockholders, and the employees and officers and directors and their families own about 73.5% of the common stock of the Company. We are truly an employee-owned company. I have always been proud of the fact that our employees feel that the firm for which they work deserves to be one in which they choose to invest their money. We believe that employee stock ownership results in better service to our policyholders and agents. Our staff, and our agency force, also have responded enthusiastically to the greater strength that the Company has achieved over the last several years. We look forward to a good year again in 1999.

To each agent, employee, officer and member of our Board of Directors, and to each of you as our stockholders, I extend my sincere appreciation and thanks.



C. Robert Ogden
President

March 5, 1999

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

BALANCE SHEET - STATUTORY BASIS

<u>ASSETS</u>	December 31, 1998 (Unaudited)	December 31, 1997
Ledger and Non-Ledger Assets:		
Bonds (market: \$45,659,807/\$42,663,222)	\$45,792,962	\$41,873,085
Preferred stocks: (market: \$7,369,597/\$8,146,721)	7,573,004	7,972,475
Mortgages (residential)	10,810,602	11,360,911
Real estate owned (REO)	792,392	1,782,805
Other invested assets	1,575,548	1,568,226
Policy loans and liens	11,076,195	10,044,484
Deposits and cash	275,759	(11,620)
Agents' balances and loans	140,300	83,667
Furniture, equipment and autos	103,541	126,465
Computer equipment	141,606	167,550
Premiums deferred & uncollected	2,302,729	2,151,717
Investment income due & accrued	1,153,962	1,324,140
Amounts receivable		
Reinsurance	1,205	7,807
Other	130,058	107,188
Guaranty Association assessments	65,091	145,998
Total Ledger and Non-Ledger Assets	<u>81,934,954</u>	<u>78,399,635</u>
Non-Admitted Assets included above:		
Fixed income investments	0	0
Mortgages, REO and related	126,558	305,263
Agents' balances and loans	140,300	83,667
Furniture, equipment and autos	<u>103,541</u>	<u>126,465</u>
Subtotal	<u>370,399</u>	<u>515,305</u>
NET ADMITTED ASSETS	<u>\$81,564,555</u>	<u>\$78,189,503</u>
 <u>LIABILITIES, CAPITAL AND SURPLUS</u> 		
Policy Liabilities:		
Policy reserves	\$70,865,475	\$68,109,215
Claims payable	216,346	266,058
Policy dividends & coupons	339,818	364,702
Premiums paid in advance	1,504,721	1,573,463
Other policy liabilities	(49,543)	90,893
Total Policy Liabilities	<u>72,876,817</u>	<u>70,404,331</u>
General Liabilities:		
Unearned investment income	303,298	272,429
Accrued taxes	158,235	163,914
Accrued general expenses	14,725	25,545
Preferred stock dividend payable	90,673	90,673
Other amounts payable	118,277	833,698
Total General Liabilities	<u>685,208</u>	<u>636,259</u>
TOTAL LIABILITIES	<u>73,562,025</u>	<u>71,040,590</u>
Asset Reserves:		
Interest Maintenance Reserve	2,447,682	1,860,057
Asset Valuation Reserve	861,356	855,516
Total Asset Reserves	<u>3,309,038</u>	<u>2,715,573</u>
Capital & Surplus		
Paid up capital	992,902	912,902
Surplus	3,700,588	3,520,438
Total Capital & Surplus	<u>4,693,490</u>	<u>4,433,340</u>
TOTAL LIABILITIES, CAPITAL & SURPLUS	<u>\$81,564,555</u>	<u>\$78,189,503</u>

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

CONDENSED SUMMARY OF OPERATIONS AND COMPARATIVE REPORT - STATUTORY BASIS

Through December 31, 1998

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
INCOME:					
Gross premium income.....	\$ 8,200,298	\$ 8,845,696	\$ 7,757,309	\$ 7,747,444	\$ 8,180,346
Less reinsurance.....	(1,776,418)	(2,290,401)	(2,989,067)	(2,846,881)	(3,033,389)
Policy dividends, coupons and supplementary contracts....	326,873	140,590	52,722	144,152	34,359
Investment income & IMR, net.....	6,219,335	6,070,005	5,812,362	5,620,756	5,400,525
Real estate income, net.....	(34,505)	(65,769)	(31,111)	(19,810)	33,691
Reinsurance commissions & reserve adjustments.....	1,332,913	1,597,190	1,856,830	1,747,794	1,764,820
Other income.....	0	0	0	0	381,000
Litigation settlement.....	0	0	0	1,661,086	0
Total operating income.....	<u>14,268,496</u>	<u>14,297,311</u>	<u>12,459,045</u>	<u>14,054,541</u>	<u>13,558,732</u>
OPERATING EXPENSES & RESERVES:					
Increases in policy reserves.....	2,481,890	3,664,961	2,466,791	1,994,928	1,876,692
Policy dividends, coupons and supplementary contracts....	137,032	88,785	75,748	32,094	54,887
Policy benefits.....	5,504,936	4,586,070	4,438,436	4,630,484	4,807,726
Commissions.....	1,071,930	980,817	926,666	998,483	1,061,793
General expenses.....	2,251,674	2,367,693	2,322,927	2,493,126	2,390,774
Taxes, licenses & fees.....	196,964	239,362	325,410	415,064	289,839
Premium loading increases/(decreases).....	31,461	84,228	(46,992)	(54,958)	24,025
Interest on reserve deposits.....	1,883,843	1,837,559	1,318,828	1,504,769	1,358,089
Total operating expenses & reserves.....	<u>13,559,730</u>	<u>13,849,475</u>	<u>11,827,814</u>	<u>12,013,990</u>	<u>11,863,825</u>
NET GAIN/(LOSS) FROM OPERATIONS.....	708,766	447,836	631,231	2,040,551	897,527
Realized capital gains/(losses).....	530,097	293,453	220,894	(644,935)	421,896
Excluding (gains)/losses transferred to Int. Maint. Reserve....	(716,746)	(298,942)	(286,611)	(42,186)	(457,454)
NET INCOME.....	<u>\$ 522,117</u>	<u>\$ 442,347</u>	<u>\$ 565,514</u>	<u>\$ 1,353,430</u>	<u>\$ 861,969</u>
Paid ordinary sales.....	108,151,335	92,765,789	63,810,456	70,114,301	92,105,835
In force at end of year.....	646,820,402	625,395,123	615,325,234	632,122,981	655,051,922
Total admitted assets.....	\$ 81,564,555	\$ 78,189,503	\$ 73,966,780	\$ 71,573,431	\$ 68,102,038

SURPLUS ACCOUNT - STATUTORY BASIS

	December 31, 1998	December 31, 1997
CAPITAL AND SURPLUS DECEMBER 31, PREVIOUS YEAR	<u>\$4,433,340</u>	<u>\$4,426,109</u>
Gain from operations	708,766	447,836
Net Realized capital gains or (losses)	530,097	293,453
Less gains to Interest Maintenance Reserve	(716,746)	(298,942)
(Increase)/decrease in Asset Valuation Reserve	(5,840)	210,375
(Increase)/decrease in non-admitted mortgages and real estate	177,077	(29,397)
(Increase)/decrease in non-admitted stocks	0	0
(Increase)/decrease in non-admitted other invested assets	(245)	76,468
Net (increase)/decrease in agents' balances and other non-admitted items	(17,440)	(53,526)
Dividends paid on Company preferred stock	(362,685)	(362,743)
Paydown of financial reinsurance balance	(249,736)	(265,894)
Recapture of permanent difference resulting from change to equity method of accounting for partnership interest	(3,098)	(10,399)
Exercise of common stock directed warrants	<u>200,000</u>	<u>0</u>
CAPITAL AND SURPLUS, CURRENT PERIOD	<u>\$4,693,490</u>	<u>\$4,433,340</u>



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