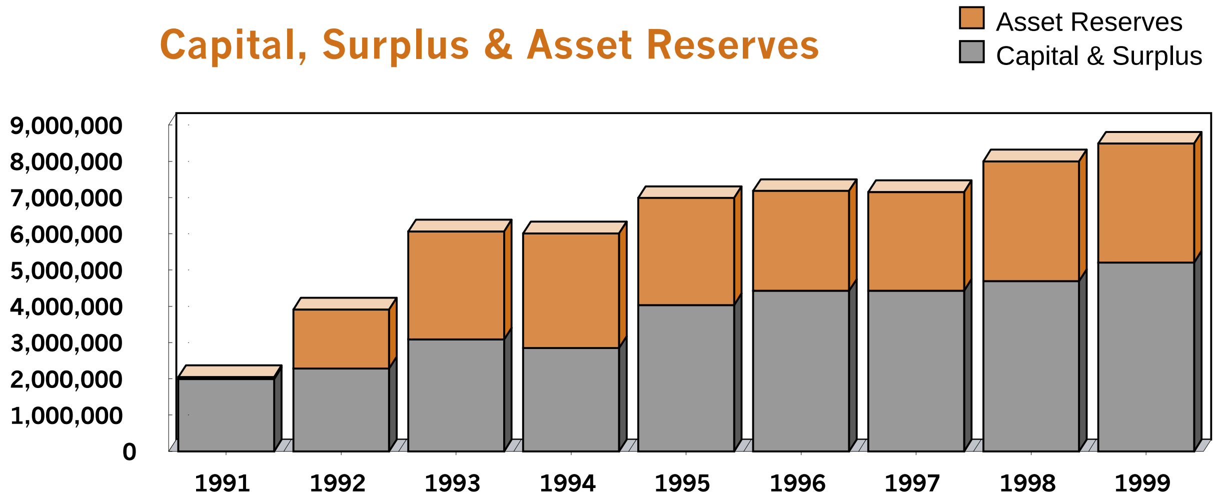
North Coast Life

ANNUAL REPORT TO STOCKHOLDERS FOR 1999

Capital, Surplus & Asset Reserves



	1991	1992	1993	1994	1995	1996	1997	1998	1999
Capital & Surplus	1,994,586	2,288,115	3,084,117	2,849,048	4,036,913	4,426,109	4,433,340	4,693,490	5,211,852
Asset Reserves	50,000	1,625,054	2,977,766	3,158,237	2,949,784	2,755,848	2,715,573	3,309,038	3,278,086

As depicted above, your Company's capital, surplus and asset reserves have grown substantially since 1991. Also, as reported on page 7, in the seven year period since 1993 your Company has allocated from surplus an additional $2.7 million to reduce outstanding financial reinsurance balances.

DIRECTORS

Ronald D. Andrews
Thomas V. Atwater
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 J. Ogden
Executive Vice President
Sales and Insurance Operations
Since 1989

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

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

Gavin J. Cooley, CPA
Treasurer
Since 1990

Samuel C. Luke
Regional VicePresident--Sales
Since 1985

Randy G. Thomas
Regional Vice President – Sales
Pacific Northwest
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. Thrams
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. Butler, 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

	1999	1998
Net Gain From Operations	$ 620,997	$ 612,317
Paid New Life Insurance (face amount)	$ 96,055,238	$ 108,150,817
Insurance In Force (face amount)	$ 631,399,003	$ 646,819,504
Assets	$ 83,808,089	$ 81,504,553
Asset Reserves		
Asset Valuation Reserve (AVR)	$ 998,741	$ 861,356
Interest Maintenance Reserve (IMR)	$ 2,279,345	$ 2,447,682
Statutory Capital and Surplus	$ 5,242,983	$ 4,693,490
Risk Based Capital Ratio	447%	485%
Investment Rate of Bonds and Preferred Stock	8.63%	8.27%
Average Size Life Case (face amount)	$ 85,917	$ 87,429
Return on Equity	12.0%	16.0%

A LETTER FROM THE PRESIDENT

April 28, 2000, is the 35th anniversary of the date when our Company received its Certificate of Authority in Washington state, and it is also the date of our Annual Meeting this year. Our Articles of Incorporation were filed February 5, 1965, and we commenced business on May 3, 1965.

Long time stockholders may recall that North Coast Life came about through the hostile merger of Great Northwest Life of Spokane into the former Sunset Life of Olympia, Washington, at the end of 1964. Many of us who founded North Coast had been employees of Great Northwest, and with the encouragement of a number of Spokane business leaders, we raised sufficient capital to start a new life insurance company and went back in business within four months. Perhaps that history has something to do with the fact that I believe we have been able to achieve extraordinary loyalty among our staff. Over half of our employees are stockholders, and the employees and Directors collectively own or control, with members of their families, over 70% of the Company's stock. We are truly an employee-owned company.

Since the beginning we have followed a 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. On the whole, our plan has been successful over the years.

Your Company operated in 1999 at a net gain from operations of $620,997 after dividends to policyholders and the preferred shareholders and before federal income taxes and realized capital gains or losses as compared to $612,317 in 1998. However, total insurance in force declined to $631,398,525 from $646,819,504 at the end of 1998, and sales for 1999 were $96,055,724 as compared to $108,150,817 in 1998. Sales and insurance in force were affected by the poor persistency of business written in the mortgage insurance market in Los Angeles resulting in the termination of a number of agents. While we enter the year 2000 with less volume coming on the books, we believe it is of better quality and will be more profitable. Our goals this year are to improve agent training and support and bolster our recruiting.

On October 1, 1999, Robert E. Blair, who had come to North Coast from Great Northwest Life in 1965, elected to retire as Senior Vice President-Sales and a member of the Board. Bob Blair gave of himself tirelessly to make the Company successful and through his engaging personality formed strong friendships with agents. His commitment, loyalty and honesty are hallmarks for us all, and he will be missed. At the Board Meeting on October 29, Robert J. Ogden was elected Executive Vice President-Sales and Insurance Operations. Rob came to us in May of 1989 with a nine year background in computer programming, system design and applications for California insurance companies, and became our Director of Marketing until he advanced to Vice President of Insurance Operations on July 1, 1994. In his new position he continues also to oversee the Computer Department, Marketing and Personnel. Today virtually every sale of life insurance and annuities is made through a computer projection of the performance of the policy.

Also as of October 1, 1999, Randy G. Thomas joined the Company as a Regional Vice President-Sales to recruit and develop agents in the states of Washington, Oregon, Montana and Idaho. Randy has been a General Agent of the Company in Coeur d'Alene, Idaho, since 1981 and will retain his sales contract. He has been one of your Company's leading producers as well as the agent with the best persistency in our entire field force. Your Company will be emphasizing the recruiting of agents in this "home territory" in the future.

Aiding our recruiting this year is an increase in our Company's A. M. Best rating to "B-", restoring the rating which the Company held before the purchase of the Home Office building affected our ratios of capital adequacy. Sales of additional common stock in 1998 and 1999 are largely responsible for this welcome improvement.

At a special meeting of your Company's stockholders held November 22, 1999, the Articles of Incorporation were changed to raise the par value of the common stock from $2.00 per share to $4.50 per share, and to approve the issuance of a limited amount of new common stock. The purpose of these changes was to move money from the surplus account to the capital account and to sell additional stock in order to satisfy the requirements of an amendment to the Insurance Code of the state of California which went into effect on January 1, 2000. On that date all life insurance companies doing business in California were required to have and maintain $2.5 million in capital and $2.5 million in surplus to hold a Certificate of Authority. I am pleased to report to you that the amendment of the Articles of Incorporation was adopted and the Company sold sufficient additional stock through the exercise of warrants and sale of the additional authorized common stock to achieve those levels. New investment in the Company during 1998 and 1999 totaled $1,027,559.

At the end of the year our Company's total assets were $83,808,089 as compared to $81,564,553 at the end of 1998, and capital and surplus was $5,242,983 as compared with $4,693,490. In addition, the Asset Valuation Reserve increased to $998,741 from $861,356 while the Interest Maintenance Reserve was $2,279,345 as compared with $2,447,682 at the end of 1998. Both of these reserves are allocations of surplus, and the Asset Valuation Reserve (AVR) is considered a part of stockholders' equity. The Company's Risk Based Capital ratio at the end of 1999 was 447% as compared to 485% at the end of 1998 and 431% at the end of 1997. As I have mentioned in these reports before, having a sufficient Risk Based Capital ratio simply means having a large enough capital base to support the investment and insurance risks of the Company. Every Company is required to maintain a Risk Based Capital ratio of at least 250%. We consider our margin of RBC to be reasonable.

The Company obtained an average yield to maturity without consideration for early redemption of 8.63% on all new bonds and preferred stocks purchased during 1999, which was an increase over 1998's 8.27%. During 1999 the Federal Reserve Board began to raise interest rates in order to try to slow down the economy and avoid the recurrence of inflation. Your Company recently increased the interest rate applied on our annuity products in order to maintain their sales and persistency.

In the fourth quarter of 1999 and continuing into the first quarter of 2000 we eliminated a number of agents in Los Angeles, including a Regional Vice President of Sales, Paul Arakelyan, who over the last two years produced good volume but whose persistency proved to be inadequate. These were experienced agents, which makes the result even more disappointing. We have started rebuilding, but we will not be able to make an intelligent projection of year 2000 sales much before mid-year. We intend to achieve a better persistency rate and a growth of insurance in force, as well as continue our policy of "controlled growth" in which we also earn a statutory operating gain and do not invade surplus.

Comments with respect to our sales plans and products that we expect to use and 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 in 2000.

C. Robert Ogden

C. Robert Ogden

INVESTMENTS

As of December 31, 1999, the Company's investment portfolio consisted of $49,032,441 of bonds (up from $45,792,962 at the end of 1998) and $7,956,399 of preferred stocks (up from $7,573,004 at the end of 1998). Your Company holds no surplus notes of other insurance companies or other entities, no common stocks, and no tax-free municipal bonds, CMOs or other derivative instruments. Our mortgage loan portfolio of $9,250,480 at December 31, 1999, was down from $10,810,602 at the end of 1998 primarily due to payoffs. We held at December 31 a partnership interest in the Home Office Building of $1,584,918, and $11,338,421 in policy loans and liens.

At the end of 1998, our mortgage loan real estate owned (properties defaulted to us) was $751,051 and at the end of 1999 that had reduced to $616,587. Most of these properties are residential properties in Alabama and were obtained in the settlement of a lawsuit against the sellers of the mortgage loans. There are 18 of these properties, and most of them are rented. All are for sale.

We also hold $348,705 in "non-admitted assets." These are assets which the Company owns, but we are not allowed by the rules of statutory accounting to include them as "admitted assets" for regulatory purposes. These assets include mortgages which are more than three months in arrears, agents' balances (commissions advanced to agents) and the Company's furniture, equipment and autos other than computer equipment.

The Company obtained an average yield to maturity without consideration for early redemption of 8.63% on new bonds and preferred stocks purchased in 1999, as opposed to 8.27% in 1998 and 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 1999, our holdings below Class 2 were $7,248,957 consisting both of bonds and preferred stocks which had been downgraded to Class 3 or 4. We do not believe that any of the downgraded securities are in danger of default, and we watch them carefully for any recovery in their value so that they may be sold.

While our mortgage loan portfolio has continued to decline because of payoffs, the Company makes new mortgage loans in and 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 of 11.8% on these new purchases. Our aggregate average yield after expenses on the entire mortgage loan portfolio is approximately 9.8%. The Company's entire mortgage loan portfolio consists of residential loans, including a few small apartment houses, condominiums and duplex dwellings. Our mortgage loans are in several parts of the country including New England, the Atlantic seaboard, Alabama, Michigan, Texas and California, as well as Washington.

The Company has a partnership interest in West 1124 Riverside Avenue Partners, which owns one of the two connected buildings in which your Company's Home Office is located. This partnership is profitable, and succeeded in the fall of 1999 in refinancing the loan on the building at a lowered rate which we anticipate will allow the partnership to begin reducing your Company's interest in the building.

While the Board of Directors in 1998 authorized the amendment of the Company's "Statement of Investment Philosophy" to include the purchase of an equity portfolio in mutual funds in an amount of no more than $1.25 million, the Directors elected not to establish such a portfolio and opted for the fixed return of approximately 8.6% on that amount because of uncertainty as to whether the exercise of warrants and the sale of additional common stock would be successful. This decision will be reviewed again in 2000.

C. Robert Ogden

C. Robert Ogden
President

PRODUCTS AND PRODUCT DEVELOPMENT

Introduced November 1, 1999, were four Single Premium Deferred Annuity plans and a Single Premium Immediate Annuity designed to expand and "round-out" our line of annuity products. The North Coast Life annuity products start with the FPRA-85 and FPRA-II, two flexible premium deferred annuities that continue to be our "bread and butter" long term annuity savings products that are an easy way to save for retirement, allowing monthly contributions as low as $50. With the addition of single premium annuities, we now provide a complete line of annuity plans–giving representatives the tools to tailor-make an annuity retirement savings program specific to an individual client's needs. By offering several single premium annuity plans, we hope to attract additional funds from bank or brokerage firm CDs or IRAs as well as give our representatives more plans for our primary annuity market in 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 funds with a time frame convenient to them.

A new *"Annuity Portfolio"* product brochure walks the client through some important basics: Retirement Today Requires More Planning, What Is A Tax-Deferred Annuity?, Unique Tax Advantages, How an Annuity Works, Why Buy An Annuity?, Selecting the Right Kind of Annuity, Paying Taxes on Your Annuity Earnings, Lump Sum Distributions from Deferred Annuities and Periodic Income Options with Deferred and Immediate Annuities. The pocket of the brochure has a "cut-out" for our representative's business card on the front and holds individual pages with information about each new product, starting with the Single Premium Immediate Annuity. Next are the four Single Premium Deferred Annuities: SPDA-3, SPDA-5, SPDA-7 and SPDA-10. All have different surrender charge schedules: 3 years, 5 years, 7 years and nine years, giving greater choice to provide the right plan to allow income to be free from surrender charge at the time the annuitant plans to retire. During the surrender charge period, excess interest or 10% annual withdrawals are allowed with no charge, subject to Company rules. Also, the plans have no surrender charge upon death or confinement to a nursing home for a 6 month continuous period. Minimum initial premium deposits are $5,000.

The Company market leader continues to be interest-sensitive whole life, distributed under the trademarked name "Versatile Life." The Versatile Life plans, with term riders attached on the base insured and his or her spouse, continue to be our most popular package, where one Versatile Life policy with one $35 policy fee covers both parents and their children at an affordable price.

A new ruling called "Triple XXX" effective January 1, 2000, required very few minor increases to premium per thousand rates on our Whole Life I and term insurance plans and riders. The new ruling allowed us to extend the current premium rate guarantees for the initial level term period on both stand alone and rider Life-Style Term plans. As an example, our 20 Year Level Term plan before the new ruling had a 5 year current premium rate guarantee and now, after the ruling, has a 20 year current premium rate guarantee. We believe that insureds want extended guarantees in the term insurance market and the extended guarantees should help with sales.

For year 2000, three new products are underway for release. The first is the reversionary annuity, which we have discussed with you previously. With final revisions to marketing material now underway, we plan to introduce the product to our agents in California within a few months. We mentioned in last year's report that the nature of this product should adapt itself well to sales on the Internet. Our first distribution method will be by our representatives, but the reversionary annuity has appeal for other distribution methods–like the internet–because of its simplicity. Current policyholders would also be an excellent source of new reversionary annuity sales to enhance their existing coverage with North Coast Life and this distribution will be implemented in year 2000. Other efforts in product development continue to "round-out" our line of products. Two years ago requests from our agents for a guaranteed premium product for the senior market then focused development efforts on improving our WL-IV product, which has a maximum face of $25,000, is issued using a short application and allows cases through table 4 to be issued as standard. Issue ages were extended from 80 to 85, and the plan now offers guaranteed premiums, guaranteed cash values and guaranteed death benefits for the life of the policy. Development of a graded death benefit plan with the WL-IV structure was also requested and has been completed by our actuary, Tony Hollobon. The product would pay 25% of the face amount on death in the first year, 50% in the second year and 100% in the third year. Full accidental death, however, would be paid from policy issue. In house software development, form development and approvals are now underway.

We have had requests for a whole life plan with current premiums guaranteed for the lifetime of the insured that doesn't limit the face amount to $25,000 as in the case of our WL-IV product. The Triple "XXX" ruling studies created the opportunity to look at our WL-I, traditional whole life product, with modifications to the rates per thousand to create a lifetime current premium guarantee. There are situations where having a current premium guaranteed for life is very important to the prospect and, even though the cost is higher than a product without the lifetime guarantee, no other plan will do. We are planning to expand the traditional whole life product line to include this plan in year 2000. Our representatives will have the ability to show the client the whole life plan with and without current premiums guaranteed for life–showing the difference in price–and let the client decide which product they want.

The Year 2000 compliance project successfully brought us into the year with no computer related problems. We continue to monitor our systems for any potential minor issues, but we are confident our compliance remains error free. With this project out of the way, we look forward to an increase in product development for the new year.

Robert J. Ogden
Executive V. P. Sales and Insurance Operations

ANALYSIS OF OPERATIONS AND FINANCIAL STATEMENTS

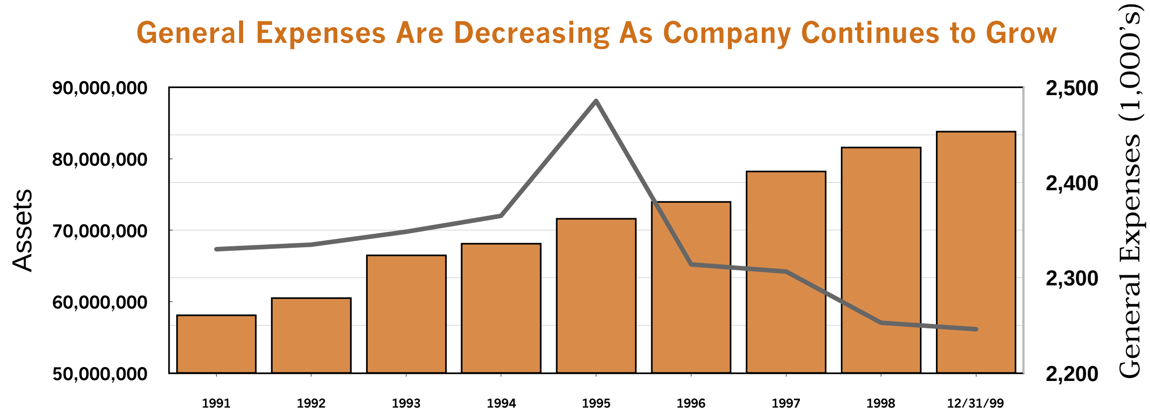
The year 1999 found North Coast, along with the entire insurance industry, working through the difficulty of a particularly adverse interest rate environment. In addition, the Company was faced with difficult market conditions for many of its staple life and annuity products. Despite these challenges, the Company still managed, through a combination of positive factors, a strong 12% increase in its capital and surplus accounts and improvements in other key financial areas as well.

The Company's net gain from operations before federal income tax rose to $620,997 versus $612,317 for the preceding year 1998. Company revenues were negatively impacted by falling premiums from life policies and annuity considerations (see discussion below). However, despite falling interest rates, the Company's net investment income rose 1.5% to $6.1 million. On the expense side, policy benefits and reserve increases were reduced over 22% to $6.3 million. In addition, general expenses were reduced for the ninth year in a row (see graph and discussion below).

Capital and surplus rose a strong 12% to $5.2 million largely on the strength of the Company's gain from operations coupled with the exercise of Company common stock warrants and the sale of additional common stock totaling $827,559. The exercise of warrants was by individuals and entities previously affiliated with the Company.

The Company's premium income from life and annuity policies dropped from approximately $8.2 million to $7.0 million. Although disappointing, this decrease in premium income must be viewed in the context of cyclical market conditions which presently favor products designed to allow direct or indirect investment in the stock market. In addition, the decrease has occurred as the Company has focused on lower levels of higher quality business. As may be observed from Rob Ogden's comments under Products and Product Developments, the Company has a strong slate of new products which can be expected to strengthen the Company's sales.

General expenses in 1999 were lower than any year since 1990. This is a particularly positive statistic, in light of the Company's substantial growth over the same period (see graph below). Management has budgeted for continued cost savings in the year 2000 based upon continued and aggressive utilization of new computer technologies and other plans for administrative improvements.

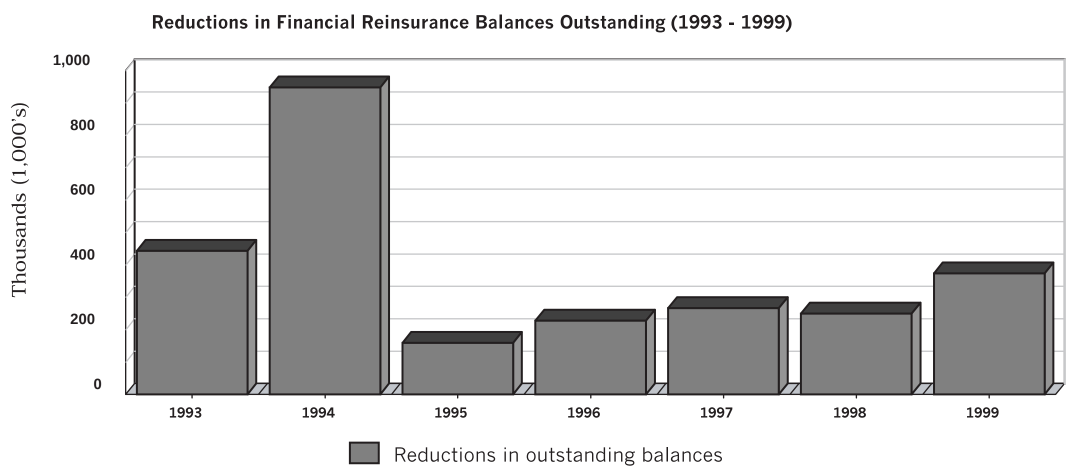


	1991	1992	1993	1994	1995	1996	1997	1998	12/31/99
General Expenses	2,329,892	2,334,790	2,348,280	2,364,976	2,485,623	2,314,138	2,306,543	2,253,024	2,246,132
Assets	58,094,288	60,502,576	66,468,645	68,102,037	71,573,431	73,966,780	78,189,503	81,564,553	83,808,089

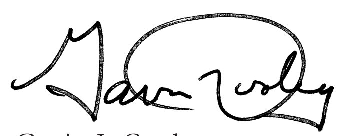
General Expenses
Assets

Traditionally, the insurance industry conservatively invests much of its assets in fixed-income securities, such as bonds and other interest-bearing instruments. These types of investments are favored because they provide a reliable stream of income and excellent market liquidity. As market rates of interest have continued to rise, however, the values of existing fixed-income investments (with interest rates fixed below current market levels) have been pressured downward. In fact, 1999 was the second worst year for the bond market since 1973. North Coast was not immune to these market conditions as the market values of the Company's portfolio of bonds and preferred stocks slid below book values. Fortunately, the Company has established a substantial reserve to buffer the affects of rising interest rates. This reserve, know as the Interest Maintenance Reserve (IMR), stood at $2.3 million at year-end, which, at almost 3% of assets, far exceeds industry averages.

The Company continued to pay down its "financial reinsurance" balances during 1999. Financial reinsurance is a form of reinsurance which advances to the Company some of the future profits on certain blocks of business. (Financial reinsurance also guards the Company from certain types of adverse policy experience). Relative to the advances of profits, financial reinsurance has some qualities similar to borrowing. Accordingly, as the Company pays down its financial reinsurance balances, the amount paid for the reinsurance also decreases. Shown below is a seven-year graph depicting the Company's aggressive allocation of $2.7 million from Company surplus to pay-down these balances.



The financial statements displayed and discussed 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 Statutory and GAAP basis financial statements are regularly posted on the Company's web site: www.nclife.com.



Gavin J. Cooley
Treasurer

LOOKING AHEAD

The warrants for the purchase of new shares of common stock at $5.00 per share which remain outstanding in the hands of common stockholders who receive this report will expire at the end of 2001. I am hopeful that many will wish to exercise these warrants. During 1998 we issued 40,000 new shares of common stock at $5.00 per share in response to the exercise of warrants, and we issued 103,254 such shares during 1999. This leaves warrants for 131,852 shares outstanding. Their exercise would add to your Company's capital and surplus accounts, further strengthening the Company and adding to an opportunity for further increases in our A. M. Best rating. I encourage each of you to respond to the exercise of the warrants. Currently the common stock of the Company is selling at about $5.75 asked and $5.50 bid and the book value per share at December 31, 1999, was $10.30.

Last year I told you that we anticipated the filing of an Offering Circular which would cover the exercise of the warrants. Our SEC counsel, however, has suggested to us that we not file this statement and incur the large expense involved unless we have an indication of substantial participation in the warrant exercise. If fewer than 50 common stockholders choose to exercise their warrants, this would be considered a "private offering" for which we have already received a Solicitation Permit from the Washington State Insurance Department, and no SEC filing would need to be made. The Board of Directors has concluded to follow counsel's advice, and, therefore, I am by this message soliciting your participation in the warrant exercise.

For our preferred stockholders, the last sale as recorded in the NASDAQ "Small Cap" reports in the Wall Street Journal was at $10.375 on March 6, 2000.

At December 31, 1999, we had 236 common stockholders and 305 preferred stockholders. At that time we were represented by 213 general agents, agents and brokers. During 2000 we will be reentering the Alaskan market, and we expect to continue to actively recruit agents and do business in the twelve western states of Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming in which we are licensed currently. We also are admitted to do business in Guam and the Commonwealth of the Northern Marianas (principally Saipan) as well as in the Marshall Islands to the east of Guam.

As mentioned earlier in this report, we have eliminated a number of agents who were selling in the Hispanic mortgage market in Los Angeles because of the poor persistency of their business. Despite that experience, we intend to continue with a strong presence in the Hispanic market in southern California. We have a number of agents in that market whose sales and persistency are satisfactory. We publish advertising and policy descriptive material in Spanish and have one employee in the Home Office in our Policyholder Service Department who is fluent in that language. The Hispanic market in California has been growing, and is a market which no company can ignore.

We anticipate that during 2000 the economy will begin to slow down and we look for a strong rally in the bond market within the next twelve months. We believe that interest rates could be significantly lower within that period of time, but at the day of this writing, March 15, 2000, the economy has not peaked and the Federal Reserve is expected to raise interest rates again at its next meeting on March 21. If that occurs, and the increase is again 0.25%, it will be the fifth increase within a year, and represent 125 basis points of change. Whether further increases by the Fed will be necessary in order to avoid the recurrence of inflation is the big question on the domestic economic front. The stock market currently has declined from over 11,000 to about 10,000. With inflation remaining well under control at less than 3%, it appears to us that it would be difficult for the Fed to justify significantly higher short-term rates. We had anticipated that a slowdown in the economy would come during the latter part of 1999. We doubt that the Fed will aggressively raise rates and risk a recession in a presidential election year, so it is possible that the Fed will be out of the picture by summer and gains for the bond market could come in the second half of 2000. That might allow the Fed to ease interest rates later this year.

Over the next fifteen years we believe that the major demographic trends will be an increase in the aging population, higher immigration, a rising percentage of racial minorities and a somewhat lower birth rate. The western United States will grow faster than other areas of the country except the Sun Belt states of California, Florida, Texas and Arizona which we believe will have the fastest growth. We do business both in California and Arizona, and California already is the largest life insurance market in the nation. We believe that during 2000 the public will continue to feel prosperous and that we will have a favorable economic climate in which to sell our products.

We are developing Web pages so that we can begin to offer products for sale over the Internet, a market which appears to have substantial possibilities. We also have new products that we will bring to market through our field force. This will be a year of rebuilding our agency force to emphasize quality business. As this occurs, however, we do not expect to need to expand our Home Office employment base. A review of our systems for Y2K problems gave us the opportunity 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 whom are stockholders. 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. Our staff, and our agency force, are responding enthusiastically to the greater strength and rating that the Company has achieved, and we look forward to a good year again in 2000.

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

C. Robert Ogden

March 15, 2000 — President

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

BALANCE SHEET - STATUTORY BASIS

ASSETS	December 31, 1999 (Unaudited)	December 31, 1998
Ledger and Non-Ledger Assets:		
Bonds (market: $44,150,509/$45,659,807)	49,032,441	$45,792,962
Preferred stocks: (market: $6,127,915/$7,369,597)	7,956,399	7,573,004
Mortgages (residential)	9,250,480	10,810,602
Real estate owned (REO)	710,563	792,392
Other invested assets	1,584,918	1,575,548
Policy loans and liens	11,338,421	11,076,195
Deposits and cash	0	275,759
Agents' balances and loans	103,844	140,300
Furniture, equipment and autos	81,085	103,541
Computer equipment	118,129	141,606
Premiums deferred & uncollected	2,238,597	2,302,729
Investment income due & accrued	1,121,394	1,153,962
Amounts receivable		
Reinsurance	1,127	1,205
Other	578,471	130,058
Guaranty Association assessments	40,925	65,091
Total Ledger and Non-Ledger Assets	84,156,794	81,934,954
Non-Admitted Assets included above:		
Fixed income investments	0	0
Mortgages, REO and related	163,776	126,558
Agents' balances and loans	103,844	140,300
Furniture, equipment and autos	81,085	103,541
Subtotal	348,705	370,399
NET ADMITTED ASSETS	$83,808,089	$81,564,555

LIABILITIES, CAPITAL AND SURPLUS

Policy Liabilities:		
Policy reserves	$72,501,394	$70,865,475
Claims payable	124,951	216,346
Policy dividends & coupons	335,069	339,818
Premiums paid in advance	1,523,284	1,504,721
Other policy liabilities	65,881	(49,543)
Total Policy Liabilities	74,550,579	72,876,817
General Liabilities:		
Unearned investment income	294,837	303,298
Accrued taxes	166,638	158,235
Accrued general expenses	38,718	14,725
Preferred stock dividend payable	90,673	90,673
Other amounts payable	145,575	118,277
Total General Liabilities	736,441	685,208
TOTAL LIABILITIES	75,287,020	73,562,025
Asset Reserves:		
Interest Maintenance Reserve	2,279,345	2,447,682
Asset Valuation Reserve	998,741	861,356
Total Asset Reserves	3,278,086	3,309,038
Capital & Surplus		
Capital Stock	2,500,001	992,902
Surplus	2,742,982	3,700,588
Total Capital & Surplus	5,242,983	4,693,490
TOTAL LIABILITIES, CAPITAL & SURPLUS	$83,808,089	$81,564,553

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

CONDENSED SUMMARY OF OPERATIONS AND COMPARATIVE REPORT - STATUTORY BASIS

Through December 31, 1999

	1999	1998	1997	1996	1995
INCOME:					
Gross premium income	$ 7,017,500	$ 8,200,298	$ 8,845,696	$ 7,757,309	$ 7,747,444
Less reinsurance	(1,920,939)	(1,776,418)	(2,290,401)	(2,989,067)	(2,846,881)
Policy dividends, coupons and supplementary contracts	116,481	326,873	140,590	52,722	144,152
Investment income & IMR, net	6,328,206	6,219,335	6,070,005	5,812,362	5,620,756
Real estate income, net	(49,283)	(34,505)	(65,769)	(31,111)	(19,810)
Reinsurance commissions & reserve adjustments	933,641	1,332,913	1,597,190	1,856,830	1,747,794
Other income	0	0	0	0	0
Litigation settlement	0	0	0	0	1,661,086
Total operating income	12,425,606	14,268,496	14,297,311	12,459,045	14,054,541
OPERATING EXPENSES & RESERVES:					
Increases in policy reserves	1,257,883	2,481,890	3,664,961	2,466,791	1,994,928
Policy dividends, coupons and supplementary contracts	205,651	137,032	88,785	75,748	32,094
Policy benefits	4,858,189	5,504,936	4,586,070	4,438,436	4,630,484
Commissions	1,011,177	1,071,930	980,817	926,666	998,483
General expenses	2,244,782	2,251,674	2,367,693	2,322,927	2,493,126
Taxes, licenses & fees	372,291	196,964	239,362	325,410	415,064
Premium loading increases/(decreases)	(43,257)	31,461	84,228	(46, 992)	(54,958)
Interest on reserve deposits	1,941,021	1,883,843	1,837,559	1,318,828	1,504,769
Total operating expenses & reserves	11,847,737	13,559,730	13,849,475	11,827,814	12,013,990
NET GAIN/(LOSS) FROM OPERATIONS	577,869	708,766	447,836	631,231	2,040,551
Realized capital gains/(losses)	(53,709)	530,097	293,453	220,894	(644,935)
(Gains)/losses transferred tothe IMR	38,232	(716,746)	(298,942)	(286,611)	(42,186)
NET INCOME	$ 562,392	$ 522,117	$ 442,347	$ 565,514	$ 1,353,430
Paid ordinary sales	96,055,724	108,150,817	92,765,789	63,810,456	70,114,301
In force at end of year	631,398,525	648,819,504	625,395,123	615,325,234	632,122,981
Total admitted assets	$ 83,808,089	$ 81,564,553	$ 78,189,503	$ 73,966,780	$ 71,573,431

SURPLUS ACCOUNT - STATUTORY BASIS	December 31, 1999	December 31, 1998
CAPITAL AND SURPLUS DECEMBER 31, PREVIOUS YEAR	4,693,490	$4,433,340
Gain from operations	577,869	708,766
Net Realized capital gains or (losses)	(53,709)	530,097
Less gains to Interest Maintenance Reserve	38,232	(716,746)
(Increase)/decrease in Asset Valuation Reserve	(137,385)	(5,840)
(Increase)/decrease in non-admitted mortgages and real estate	(44,319)	177,077
(Increase)/decrease in non-admitted stocks	0	0
(Increase)/decrease in non-admitted other invested assets	1,670	(245)
Net (increase)/decrease in agents' balances and other non-admitted items	75,501	(17,440)
Dividends paid on Company preferred stock	(362,388)	(362,685)
Paydown of financial reinsurance balance	(373,537)	(249,736)
Recapture of permanent difference resulting from change to equity method of accounting for partnership interest	0	(3,098)
Cumulative adjustment for imputed capital gains tax	0	0
Exercise of common stock directed warrants and sale of common stock	827,559	200,000
CAPITAL AND SURPLUS, CURRENT PERIOD	$5,242,983	$4,693,490

North Coast Life - THIRTY-FIFTH ANNUAL REPORT

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