North Coast Life

ANNUAL REPORT TO STOCKHOLDERS FOR 2002

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

Gavin J. Cooley
William C. Fix
Warren C. Heylman

Nicholas R. Knapton
Douglas H. Ogden
C. Robert Ogden

Robert J. Ogden
Ronald R. Snyder

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
California and the Southwest
Since 1978

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

Gavin J. Cooley, CPA
Treasurer
Since 1990

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

Diana L. Buchmann, FLMI
Director of Policy Service
Since 2000

Sharon G. Gustafson, FLMI
Director of Accounting
Since 1987

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

HIGHLIGHTS

	2002	2001
Net Gain From Operations	$ 878,840	$ 938,653
Paid New Life Insurance	$ 47,098,345	$ 46,862,180
Insurance In Force (face amount)	$ 561,689,874	$ 579,995,639
Assets	$ 92,985,573	$ 87,031,247
Asset Reserves		
Asset Valuation Reserve (AVR)	$ 598,925	$ 1,211,135
Interest Maintenance Reserve (IMR)	$ 854,177	$ 637,868
Statutory Capital and Surplus	$ 5,256,578	$ 5,685,573
Risk Based Capital Ratio	317.6%	438.8%
Investment Rate of Bonds and Preferred Stock	8.36%	8.44%
Average Size Life Case (face amount)	$ 65,052	$ 60,003
Return on Equity	(9.8%)	13.9%

A Letter From the President

From the "Condensed Summary of Operations and Comparative Report–Statutory Basis" for the year 2002 which appears on page 17 of this Annual Report, you will see that the Company had a net gain from operations for the year of $878,840, nearly a record figure and a very healthy gain for the year. This tells us that the Company's insurance operations are sound and profitable.

However, you will also have seen that, after capital losses, the net income of the Company for the year was a loss of $557,721, and our capital and surplus declined by $428,994. Both came from a decline in the Company's investment portfolio which also resulted in a decline in the Asset Valuation Reserve. The rebuilding of the AVR and surplus account are the areas in which the Company needs to concentrate over the next several years.

The drop in our surplus was 7.5% of capital and surplus at December 31, 2001. The entire life insurance industry has suffered from a similar decline in investment values, largely bond valuations, and many of the major companies in the nation had declines much greater than the 7.5% that we suffered. That statement is not made in any way to excuse the fact that our investments dropped in value, but simply to point out that the entire industry (and the entire economy) has been suffering through a serious decline in the value of investment portfolios.

You will notice on the page opposite this letter the list of "Highlights" for the year, and among them are the changes that affected the Asset Valuation Reserve (AVR) and the Interest Maintenance Reserve (IMR). The IMR was set up to receive profits on the sale of securities which are then amortized over the remaining risk period of the securities which were sold. The theory is that the interest rate gains need to be amortized to maturity in order to match assets with related liabilities. Previously these profits would have gone into the operating statement. The AVR, on the other hand, was established as an additional reserve for credit risk on securities including securities which are downgraded by the rating agencies. The AVR has a moving cap, based on asset quality, but is drawn directly out of the surplus account when additional reserves need to be put up for bonds which are downgraded. That is what has happened to North Coast over the last couple of years. The below investment grade bonds at the end of 2002 represented about 29% of the total bond portfolio and had a statement value of $18 million but a market value of about $13.2 million. Those figures exclude $1.2 million in preferred stocks which were under water at December 31 by about $270,000. The additional reserves required to protect those investments have come out of the surplus account. While our bond portfolio has begun to recover, economic projections for 2003 are mixed.

The decline in the value of our investment portfolio also reduced our risk based capital ratio to 317.6% from the 438.8% at the end of 2001.

Because the cost of first year sales exceeds first year premiums and results in a draw down of surplus, we did not push the rebuilding of our agency force in 2002. At December 31, 2002, the Company had 180 General Agents and 41 Agents and Brokers where at the same date in 2001 we had 222 General Agents and 35 Agents and Brokers. We tightened recruiting requirements, and our ordinary life sales increased slightly to $47,097,608 in 2002 as compared to $46,862,180 in 2001. Annuity sales, however, rose dramatically with $2,050,882 of annualized annuity premium as against $958,696 in 2001. Over the last few years the life insurance industry has seen a customer preference toward asset accumulation products rather than pure insurance coverage.

During the fourth quarter as the extent of the decline in the value of the bond portfolio became more clear and following our projections of the effect which that would have on the Asset Valuation Reserve and our surplus account, the Management of the Company began to take steps to control the damage.

In November, 2002, we lowered the interest rates that we apply on our life and annuity products, an action which mirrored the fact that the federal reserve lowered interest rates in order to stimulate the recovery of the economy. We believe that the interest rates which we are now applying are still competitive in the marketplace and provide us with a "spread" that gives us the proper profitability. The reduction in interest rates over time will produce a saving of approximately $225,000 per year in the Company's expenses.

It became apparent, also, that the Company likely would have to suspend the payment of the preferred stock dividend during the fourth quarter and probably for the year of 2003. Projections of the Company's operations were checked by our consulting actuary and during late December the Company announced that the dividend would, indeed, be suspended. An immediate announcement was made by news wire and to NASDAQ where our Company's preferred stock trades in the "Small-Cap Section." The suspension of the dividend was a very hard decision to make, but the dividend in total is $362,692 per year. At the meeting of the Board of Directors of the Company held on January 24, 2003, the Board did not declare the dividend for the first quarter of 2003 and decided to review the matter of the payment of the dividend each quarter during the year to see how the Company's investment portfolio progresses. There has been some recovery in the portfolio since the end of the year.

Your management is actively engaged in the reduction of expenses (which takes time to implement) and in a number of other actions which we believe will add to our Asset Valuation Reserve and surplus and enable us to rebuild both to adequate levels. This will be the major challenge facing the Company over the next several years and particularly the next two years in which we need to rebuild the AVR to a required "cap."

Further comments with respect to our sales plans and products, our investments, and an analysis of our operations and financial statement follow in other parts of this report, together with further comments on our plans for the future.

We believe that our basic business is sound and profitable and that sales can be rebuilt slowly over the next several years.

C. Robert Ogden
President

INVESTMENTS

At December 31, 2002, the Company's investment portfolio consisted of $62,100,473 book value of bonds, which was up from $53,745,672 at the end of 2001. During the year we reduced our preferred stock portfolio to $5,329,052, well below the $7,849,061 at the end of 2001. We are permitted to hold 10% of our assets in preferred stocks, but many preferred stocks are in the utilities category and we have reduced our holdings in that field.

Our new statement of investment philosophy, while similar to the one we had before, now establishes some specific parameters with respect to categories of investments and a cap of no more than $750,000 face amount of NAIC Class 1 bonds and $500,000 in NAIC Class 2. Another objective is for holdings exceeding those limits to be reduced below these limits by December 31, 2005. Investments are to be diversified across a broad range of industry classifications and a 5% maximum interest concentration is an investment goal. A new committee with respect to investments will meet about the first of every month consisting of the President, Executive Vice President, Treasurer, Actuary and a representative of the investment firm from which we purchase the bulk of our portfolio.

The National Association of Insurance Commissioners has established six rating levels for bonds. Bonds with A ratings are Class 1, bonds with BBB ratings are Class 2, bonds with BB ratings are in Class 3, B ratings are in Class 4, C ratings are generally in Class 5 and those in default are in Class 6. Any bond that falls into Class 6 must be carried at market value rather than at book. We are permitted to carry bonds at their book value unless they're in default. Also, some bonds upon which the issuer has ceased to pay interest are treated as Class 6 if the Securities Valuation Office of the National Association of Insurance Commissioners feels that a bankruptcy filing is likely.

We watch very carefully, and on a daily basis, all of our securities which are below investment grade and have sold quite a number as the opportunity permits. In some cases our sales have been at a loss where we could take the loss out of the Interest Maintenance Reserve which was established for the purpose of absorbing such losses.

We believe interest rates are at their low point for the year of 2003 and we do not think that it is likely that the Federal Reserve will tighten interest rates unless there is some real resurgence of inflation. At the time that this report is being written in early March, evidence of strengthening in the economy is becoming more apparent and the values in our bond portfolios have begun to recover. During 2003, therefore, we will continue to purchase corporate bonds of medium maturity, but we will probably not add much to our preferred stock portfolio. We have mentioned before in these reports that our Company maintains a "Statement of Investment Philosophy" which authorizes the purchase of an equity portfolio in mutual funds in an amount of no more than $1.25 million. The Board of Directors has not elected to establish such a portfolio because of unsettled conditions in the stock market.

We also maintain a mortgage loan portfolio which at year end 2002 was $5,004,721, down from $7,051,203 at the end of 2001 because of loan payoffs. We maintain an affiliation with R. J. Martin Mortgage Company to acquire individual mortgage loans in the immediate area of Spokane. We acquired very few mortgage loans in 2002, and all were first mortgage residential loans in which the Company held approximately a 75% loan to value ratio with an average yield of about 9%. We have found good residential loans more difficult to acquire and do not contemplate an aggressive effort to acquire mortgage loans this year.

We will continue to maintain an investment in a partnership interest in our home office building in Spokane, which at the end of 2002 was $1,708,177, and is comprised of an interest in the ownership of West 1124 Riverside Avenue Partners which owns the office building adjacent to and connected with our Home Office building at 1116 West Riverside. The two building are operated as a unit, and all of the emergency backup systems are commonly shared.

We also maintained at December 31, 2002, $13,285,326 in policy loans and liens. Our policy loans are almost entirely at 1% above the rate of “excess interest” that we pay on our ordinary life products (which currently is 5.0% plus a 1/2% bonus for policies which have been in force longer than fifteen years). This “excess interest” is applied to the cash value of the policy. Our policies permit us to change the rate of “excess interest” to respond to economic conditions. The policy loans we made this year are at a rate which is below that at which we could invest the same money in bonds or preferred stock.

The Company obtained an average yield to maturity without consideration of early redemption of 8.36% on the bonds and preferred stocks purchased during 2002. So far in 2003 we are averaging 7.04%. For our Company’s products to be profitable, we need a spread of approximately 200 basis points for our life products and 250 basis points for our annuity products. This year we are applying 5% as the excess interest rate on our Versatile Life products and 4.25% on our flexible premium annuities. The yields which we currently are obtaining on new bond purchases give us the spreads which we need, and our investments made in previous years are returning a rate above that which we are currently obtaining on new purchases. We subscribe to a service which gives us a monthly analysis of the credited interest rates of 23 interest sensitive whole life products, 188 flexible premium deferred annuities and 263 single premium annuities with which we compete. We believe that the credited interest rates of our Company are currently favorably positioned against these competitors.

Our Company also held at the end of 2002 an amount of $126,032 in “non-admitted assets.” These are assets which the Company is not allowed by the rules of statutory accounting to include as “admitted assets” for regulatory purposes. These “non-admitted assets” include mortgages which are more than three months in arrears, commissions which we have advanced to agents (agents balances and loans), and the Company’s furniture, equipment and automobiles other than computer equipment. We maintain a very low level of agents’ debit balances and loans.

The Company’s 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, is a profitable partnership and is fully rented. Our Home Office building, of which we occupy only a part, also is profitable and has only one vacancy of less than 4,000 square feet.

C. Robert Ogden
President

SALES, PRODUCTS AND PRODUCT DEVELOPMENT

Overview: Sales Trends Established in 2001 Continue to Expand

New life and annuity products introduced in the years 2000 and 2001 continued to have steady sales growth in 2002. Total life insurance sales in 2002 came in almost equal to the previous year, with continued expansion of market share in our senior/final expense and term insurance product lines. As a reminder, in 2001 we introduced a Two Year Graded Life product, which complements our "Peace of Mind for Tomorrow" or Whole Life IV plan, and both products target the senior/final expense markets. We also saw a 100% increase in term insurance sales, resulting from the growth in home mortgage protection policies sold by casualty insurance agencies selling North Coast Life products. "Versatile Life" family market sales continue to be our life insurance product leader for traditional family protection and retirement savings. However, a decrease in Versatile Life sales during 2002, which is an interest-sensitive whole life plan, can be attributed to falling interest rates credited to our policies, which dropped one full point from 6.00% to 5.00% during the year.

For three years we have seen dramatic growth in annuity sales. For 2002, there was a 100% increase in new annuity premiums over 2001, for a total of $2,050,882. This is the result of the expansion of our annuity product line in late 2000 to include single premium deferred annuities. The Company now has a complete line of fixed interest-rate annuity products, made up of two flexible premium plans, four single premium deferred plans, and one single premium immediate annuity plan. The recently released *"Care"* reversionary annuity plan continues to see steady growth and has had excellent success during 2002 in the territory of Guam.

Recruitment of Agents

We have traditionally recruited agents to North Coast Life by targeting direct mail to licensed life insurance agents in specific zip code areas. In 2002, our recruiting efforts focused in the Northwest States of Washington, Oregon, Idaho and Montana. In the Southwest, we focused on areas in Southern California and Arizona. We have also contracted many new agents through our new agency on the island of Guam.

The Company is currently working on another recruiting channel by developing our Company Internet website to better serve prospective agents. We have seen a steady increase of interest in our Company and products by agents using the Internet and we recently contracted an agency in Yakima, Washington via our web site. Once completed, the agent recruiting area of our website first allows the agent to pick a market he sells to - the family market, senior/final expense market, and the retirement/financial savings market. By selecting a market segment to explore, our products specific to the market they are interested in, are introduced to them in visual and written detail. We also make it easy for them to provide us with their personal information, so we can get back to them with questions and contract information. We believe this to be a very cost effective way to attract agents to North Coast Life and one that will steadily grow in the future.

We continue to see an improvement in the agents we recruit and the business we receive. The "quality not quantity" recruiting approach has measurably improved the persistency of new business we receive and has greatly reduced lapsation of policies over the past few years.

Sales - New Business Projections

Richard Hillier, Senior Field Vice President, works out of Chino, California, and is responsible for the recruitment and training of agents in our Southwest territory of California, Arizona, Nevada and New Mexico. Life insurance sales in Richard Hillier's territory increased 10% in 2002 to $21 million face amount placed. We also saw an increase in annuity sales over 2001. We are planning on a reduction in this territory to between $18 and $20 million face amount placed for 2003.

Group Employees and Associates of Murray, Utah, works in the federal government employee and school district payroll deduction markets of Utah, Arizona and New Mexico, with consistent year after year sales. We saw a large increase in annuity premium in 2002 from Group Employees as well as $15 million face amount of life insurance, placed. We should see another consistent year from Group Employees with between $12 and $15 million face amount of placed life insurance business.

Our local unit in the states of Washington, Oregon, Idaho and Montana is headed up by Randy Thomas, Regional Vice President for the Northwest. Due to two key agents leaving during the year, sales dropped by about $2 million face amount to almost $7 million face amount placed during 2002. However, annuity sales grew substantially and this unit continues to produce the majority of Company annuity sales. Due to some recent successful recruiting efforts we expect to see sales to continue to grow conservatively in this territory with around $8 million face amount placed during 2003.

During 2002 we saw a good increase in sales in the territory of Guam, through Roger Surban, Supervising General Agent and President of Citadel Insurance Underwriters, Inc. We also have been especially pleased with the growth of our *"Care"* reversionary annuity on Guam, which is a unique to the industry accidental death policy. Life insurance sales grew to almost $4 million face amount during 2002, and we estimate between $3 and $4 million face amount during 2003. It is hard, however, to predict sales at this time because the island is just recovering from a major hurricane and business has been very slow through the first quarter of 2003.

A reduction in placed business is planned for 2003 and a reasonable life insurance sales projection for the year is $40 million face amount placed.

Products

Over the past few years we have introduced several new life insurance and annuity products giving North Coast Life a comprehensive product line covering several sales marketing segments. We plan to become more market focused in presenting our products to our agents and prospective agents. Key insurance and annuity markets we offer products for are: The Family Market - served by our Versatile Life, Lifestyle Term, Whole Life I, flexible premium deferred annuity plans and *"Care"* accidental death plan. The Senior and Final Expense Needs Market - served by our simplified issue life insurance plans Whole Life IV and Two Year Graded Life, four Single Premium Deferred Annuity plans and one Single Premium Immediate Annuity. The Retirement/Financial Savings Market - also served by our Versatile Life products with the additional cash drop-in savings rider attached and the ability to continue premium payments beyond the required payment period to add greater tax sheltered build-up of cash values. Other savings plans also include our entire line of eight annuity products.

Enhancements to current products and development of new products slowed in 2002 in order to place greater emphasis on the conversion of our agency software.

Conversion of Agency Software

Our agency software gives agents the ability to provide quotes and illustrations on all of our products using a personal computer. Underway last year at this time was the in-house conversion of our agency software operating system from Microsoft DOS, which has rapidly become obsolete, to Microsoft Windows. Many of the printers on the market today will not print output from application software using DOS and it has been critical that this conversion be completed. Our greatest challenge was the conversion of our "Versatile Life" illustration system which is made up of twelve life insurance plans and their riders. The data base for this system was written by a previous actuary of ours and although there was some reservation as to the complexity and time frame, we elected to rewrite this in-house, which has proven to be the correct decision. The conversion project of all our illustration programs is now complete and up and running with our agents in the field. We have also added enhancements to the CD ROM laser disk software to include our product rate books. Before adding the Versatile Life rate book to the disk, the rate book was printed in pocket book form at the cost of about $6,000 whenever a different interest rate was credited to the product. By having the rate book available on our software, agents now print the entire rate book using their computer printer, or print just the page needed, or simply view the needed rates on a computer monitor. This has been widely seen as an improvement over the old "printed" version of the rate book and has helped save printing costs as well.

Robert J. Ogden
Executive Vice President
Sales and Insurance Operations

ANALYSIS OF OPERATIONS AND FINANCIAL STATEMENTS

This discussion and analysis provides an assessment by management of the Company's current financial position and results.

Summary:

Growth in premium income, favorable policy experience, and controlled expenses contributed to strong operational earnings. However, the effects of a weak national economy and other factors created problems with the Company's investment holdings resulting in a material reduction of the Company's surplus account and exposure to investment downgrades.

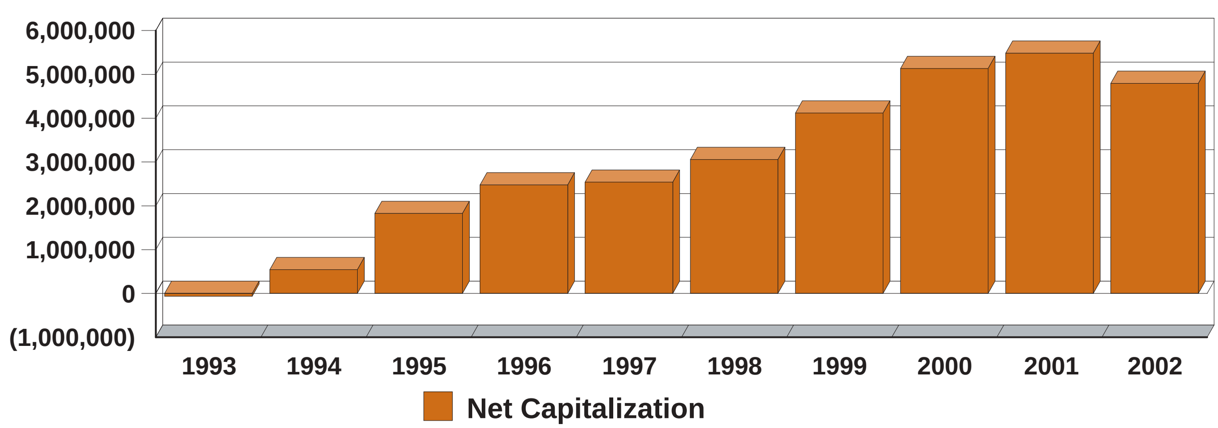
Balance Sheet:

Capital and Surplus:

The Company's capital and surplus decreased $428,994 (7.5%), dropping from $5,685,573 at December 31, 2001 to $5,256,579 at December 31, 2002. The decrease resulted primarily from investment write-downs coupled with reserving requirements associated with investment holdings that have dropped to less-than-investment grade.

The following graph depicts a ten-year history of the Company's statutory capital, surplus, Asset Valuation Reserve, and financial reinsurance balances:

Statutory Capital & Surplus, Asset Valuation Reserve & Financial Reinsurance



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Capital & Surplus	3,084,116	2,849,048	4,036,913	4,426,109	4,433,340	4,693,490	5,242,983	5,998,498	5,685,573	5,256,579
Asset Valuation Reserve	1,200,909	1,096,748	1,030,656	1,065,891	855,516	861,356	998,741	894,362	1,211,135	598,924
Financial Reinsurance	(4,348,296)	(3,400,000)	(3,241,290)	(3,013,366)	(2,747,472)	(2,497,736)	(2,124,199)	(1,757,151)	(1,410,229)	(1,058,463)
Net Capitalization	(63,271)	545,796	1,826,279	2,478,634	2,541,384	3,057,110	4,117,525	5,135,709	5,486,479	4,797,040
Percentages *	0.0%	0.8%	2.6%	3.4%	3.3%	3.7%	4.9%	6.2%	6.3%	5.2%

**Percentages depict ratio of Capital and Surplus and Asset Valuation Reserve net of Financial Reinsurance to total assets.*

The graph generally demonstrates aggregate growth over the past ten years partially offset by the year 2002 decline.

Assets:

The relative composition and changes in the Company's investment portfolio were as follows:

	Current 12/31/02	Prior 12/31/01	Increase / (Decrease)
Bonds	$62,100,472	$53,745,671	$8,354,801
Preferred Stocks	5,329,052	7,849,061	(2,520,009)
Mortgage Loans	4,992,199	7,019,172	(2,026,973)
Other	1,876,158	1,719,698	156,460
Total Investments	$74,297,881	$70,333,602	$3,651,359

Management has increased investments in bonds and decreased preferred stock holdings as a conservative response to the uncertain economy and resulting need for more secure investment holdings.

The market values of the Company's bond and preferred stock holdings are substantially less than the carrying value on the Company's books as follows:

	Carrying Value	Market Value	Excess/(Deficit)	Prior Year Excess/(Deficit)
Bonds	$62,100,472	$57,045,416	($5,055,056)	($5,843,825)
Preferred Stocks	5,329,052	5,060,172	(268,880)	(111,706)
Totals	$67,429,524	$62,105,588	($5,323,936)	($5,955,531)

The majority of the Company's approximate $5.3 million unrealized loss is concentrated in below-investment-grade bond and preferred stock investments. These below-investment-grade investments are generally defined as securities rated below BBB- (Standard and Poors, Fitch, Duff and Phelps), or Baa3 (Moody's). Company holdings of below-investment-grade securities comprise 28.3% of the Company's bond and preferred stock investments and have increased substantially as follows:

	Carrying Value 12/31/03	Carrying Value 12/31/02	Increase/Decrease
Bonds	$17,876,184	$11,685,858	$6,190,326
Preferred Stocks	1,202,152	537,000	665,152
Totals	$19,078,336	$12,222,858	$6,855,478

In accordance with the Company's Investment Policy, all bond and preferred stock investment purchases must be investment grade. Accordingly, all of the Company's holdings of less-than-investment grade securities have resulted from an erosion of credit quality in the securities after purchase. The deterioration of credit quality often relates directly to the depressed national economy.

In response to the risks associated with the Company's investment portfolio, management revised its Investment Policy and established monitoring procedures and other activities to help mitigate risk. In addition, future purchases and disposals of securities are focused on improving the credit quality of the portfolio.

Although yields on the purchase of new higher-quality investments are somewhat lower than historically earned by the Company, management notes the reduction in yield is offset by the low general market interest rates which have allowed the Company to credit lower rates on its product offerings.

Management anticipates a significant and continued increase in the investment portfolio's credit quality as the national economy continues to improve; however, the Company remains vulnerable to near-term investment downgrades and resulting reductions in the Company's surplus account.

Liabilities:

The majority of the Company's liabilities are comprised of Policy Liabilities (99%). These liabilities increased 8.0% in the current year. This increase is higher than in recent years and generally results from strong annuity sales and relatively low levels of policy surrenders and other policy benefits.

The Interest Maintenance Reserve (IMR) increased 33.9% to $854,177. The increase results from realized gains on the sale of IMR related fixed income securities (generally rated BB- or better by Standard & Poors). The IMR stands at approximately 1% of cash and invested assets. At this level, management believes the IMR is marginally adequate to account for the potential interest rate risk associated with the Company's bond and preferred stock investments (see earlier discussion of Company assets).

The Company's Asset Valuation Reserve (AVR) decreased from $1.2 million to $598,924. The decrease resulted from $1,436,561 in capital losses from dispositions and write-downs of troubled bond and preferred stock investment holdings. Management anticipates required AVR levels between $1.5 and $2.0 million over the next several years. These levels will require approximate minimum AVR contributions between $900,000 and $1.54 million over an estimated two-year period. Any future capital losses will increase the required AVR contribution.

Management acknowledges the significant risk that the AVR may not be adequate to absorb potential future capital losses. In addition, management observes that the anticipated required contributions to the AVR will place a significant strain on the Company's surplus account.

The Company's Capital and Surplus stands at $5,256,579. The Company is required to maintain $4.8 million of Capital and Surplus in its domiciliary state of Washington. In California, where approximately 29% of the Company's life and annuity premiums are derived, the Company is required to maintain $5.0 million of Capital and Surplus. The current level of Capital and Surplus is only marginally above those minimum levels and therefore is substantially vulnerable to adverse experience from operations, problems with the investment portfolio, contributions to the AVR, or other non-operating items including changes in non-admitted assets and pay-downs in the Company's financial reinsurance balance.

Results of Operations:

The Company achieved a 2002 net gain from operations of $878,840. Continued strong renewal life premium and investment income coupled with moderate policy benefits and a decrease in general expenses contributed to this healthy gain.

Income:

The Company's gross premium income from life and annuity policies for December 31, 2002 was 21.1% higher than the preceding year as follows:

	12/31/02	12/31/01
Life Premiums:		
First-Year	$ 554,949	$ 585,649
Renewal	5,444,148	5,341,613
Total	5,999,097	5,927,262
Annuity Premiums	3,210,934	1,677,905
Total Gross Premiums:	$9,210,031	$7,605,167

First-year life premiums decreased 5.2%. Management plans a moderate but continued downward trend in first-year life premiums with an objective of reducing the costs and surplus-strain associated with higher levels of new business.

Renewal premiums increased 2.0%. The increase is an important component of the Company's continued strong operational income and provides a strong foundation for the Company's future earnings.

Annuity premiums increased a very strong 91.4% as the Company's slate of annuity products continued to sell well. Future annuity sales are expected to substantially decline as the Company has reduced credited rates to assure profitability on new and existing policies.

Expenses:

Expense from increases in policy reserves jumped from $2.9 million to $5.1 million. This increase is a healthy indicator and results from strong renewal premiums on life policies, a large increase in annuity sales, and favorably low payouts of policy-related benefits.

Despite a large increase in gross death benefits of 86.3% ($605,039 to $1,127,237), the increase in claims net of reserves and ordinary reinsurance was a more moderate 19.1%. The general trend of death benefits remains positive as demonstrated by the following table which shows net claims over a five-year period. The claim amounts are shown net of policy reserves and ordinary reinsurance but exclude the effects of financial reinsurance.

	2002	2001	2000	1999	1998
1st Qtr	$218,396	$153,233	$207,156	$334,523	$309,732
2nd Qtr	257,331	151,396	267,709	389,513	273,343
3rd Qtr	166,690	411,624	271,807	134,547	310,474
4th Qtr	436,275	189,462	397,275	230,349	227,681
Annual Totals	$1,078,692	$905,715	$1,143,947	$1,088,932	$1,121,230

Commission expenses increased from $792,627 to $889,042 as a result of the robust annuity sales and consistent renewal life premiums.

General expenses at $2.3 million represented a slight decrease from the prior year level. The decrease generally resulted from substantially lower depreciation expense, lower salary cost, and the cancellation of the Company's sales convention.

The Company continues to budget aggressively and to seek new cost savings as a partial answer to difficulties stemming from the Company's troubled investment portfolio.

Interest on reserve deposits dropped from approximately $2.1 million to $1.7 million; however these costs net against other components of the company's reinsurance arrangements and do not directly affect the Company's net earnings.

At $613, the Company's income tax expense is nominal. The low amount of income tax expense resulted in part from net operating loss and other tax attribute carry forwards.

Other Matters:

Risk Based Capital:

The Company's Risk Based Capital Ratio (RBC) dropped to 318% from the prior-year ratio of 439%. The National Association of Insurance Commissioners (NAIC) sets out levels of regulatory action beginning at RBC levels of 250 and lower. The "Company Action Level" applies to RBC levels of 150%--to 250%, and requires that a Company must prepare a business plan outlining how it will reach compliance (i.e. RBC level above 250%) and the [Washington State] Commissioner must approve the plan.

A.M. Best Rating:

On December 6, 2002, A.M. Best Company downgraded the Company's Financial Strength Rating from B- to C++.

Preferred Stock Dividend:

Due to certain troubled securities in the Company's investment portfolio coupled with the Company's marginal levels of asset reserves and surplus available to offset potential future capital losses from investment holdings, the Company's Board of Directors voted on January 24, 2003, to continue to suspend the quarterly dividend on its 10% Series A Cumulative Preferred Stock. Although improved creditworthiness of the Company's investment portfolio remains largely dependent on a recovery of the nation's economy, Management's highest priority is to manage Company operations toward reinstituting suspended and future preferred stock dividends at the earliest opportunity.

Examination Report:

The Company was recently examined by the Department of Insurance for the State of Washington for the years 1996 through 2000 and the Report of Examination was released on September 5, 2002. There were no adjustments to the Company's financial statements resulting from the Examination.

Gavin J. Cooley, CPA
Treasurer

LOOKING AHEAD

At December 31, 2002, we had 192 common stockholders and 169 preferred stockholders. At that time, also, as mentioned earlier in this report, we were represented by 180 General Agents and 41 Agents and Brokers. Our sales manpower decreased during 2002 but our life sales showed a slight gain over 2001 and our annuity sales more than doubled. We intend to continue to recruit this year, but not as aggressively as before.

We will continue to operate in the twelve western states of Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming, although we have abandoned re-entering Alaska because of the low sales potential there. We also are admitted to do business in Guam and the Commonwealth of the Northern Mariannas (which principally is Saipan) where we have been developing increasing sales. We have completed the internal conversion of our agency software system, which gives our agents the ability to quote and illustrate all of products on their own personal computer, to a system driven by Microsoft Windows. Our former agency software operated on Microsoft DOS. We made the conversion because we found that the new computer printers which also serve as a fax or copy machine would not print our illustrations properly unless the program was Windows driven. The new Windows programs will become a base for our illustration needs over the Internet and we are planning to expand this direct sales effort.

You will find our Company's website at www.nclife.com, and it has been updated extensively. Many of our Policyholder Service forms are now available for downloading and printing, thus saving mailing expense and time for our agents and policyholders. This year we expect to include a secure site for access using a password or social security number for policyholders to view pertinent information about their policies and for agents to be able to access their commission statement and the status of application requirements still pending in Underwriting.

Our staff is dedicated to rebuilding our agency operation and following all of the avenues that we reasonably can to rebuild our Asset Valuation Reserve and surplus account as rapidly possible.

While it will be challenging, we look forward to a good year in 2003. 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

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

BALANCE SHEET - STATUTORY BASIS

ASSETS	December 31, 2002 (Unaudited)	December 31, 2001
Ledger and Non-Ledger Assets:		
Bonds (market: $57,045,428/$47,901,848)	$62,100,473	$53,745,672
Preferred stocks: (market: $5,060,172/$7,737,355)	5,329,052	7,849,061
Mortgages (residential)	5,004,721	7,051,203
Real estate owned (REO)	164,995	149,054
Other invested assets	1,708,177	1,565,575
Policy loans and liens	13,285,326	12,732,907
Deposits and cash	1,723,584	33,347
Agents' balances and loans	17,960	23,672
Furniture, equipment and autos	92,914	63,371
Computer equipment	21,330	28,055
Premiums deferred & uncollected	2,258,012	2,222,399
Investment income due & accrued	1,393,440	1,310,672
Amounts receivable:		
Reinsurance	1,013	1,361
Other	2,985	367,968
Guaranty Association assessments	7,623	11,393
Total Ledger and Non-Ledger Assets	93,111,605	87,155,710
Non-Admitted Assets included above:		
Fixed income investments	0	0
Mortgages, REO and related	15,158	37,420
Agents' balances and loans	17,960	23,672
Furniture, equipment and autos	92,914	63,371
Subtotal	126,032	124,463
NET ADMITTED ASSETS	$92,985,573	$87,031,247

LIABILITIES, CAPITAL AND SURPLUS		
Policy Liabilities:		
Policy reserves	$84,559,992	$78,295,531
Claims payable	435,453	149,374
Policy dividends & coupons	5,250	5,500
Premiums paid in advance	80,508	64,810
Other policy liabilities	(98,558)	187,294
Total Policy Liabilities	84,982,645	78,702,509
General Liabilities:		
Unearned investment income	329,576	345,724
Accrued taxes	184,796	172,773
Accrued general expenses	115,386	111,082
Preferred stock dividend payable	0	90,673
Other amounts payable	663,490	73,910
Total General Liabilities	1,293,248	794,162
TOTAL LIABILITIES	86,275,893	79,496,671
Asset Reserves:		
Interest Maintenance Reserve	854,177	637,868
Asset Valuation Reserve	598,925	1,211,135
Total Asset Reserves	1,453,102	1,849,003
Capital & Surplus		
Capital Stock	7,645,062	7,645,062
Surplus	(2,388,484)	(1,959,489)
Total Capital & Surplus	5,256,578	5,685,573
TOTAL LIABILITIES, CAPITAL & SURPLUS	$92,985,573	$87,031,247

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

CONDENSED SUMMARY OF OPERATIONS AND COMPARATIVE REPORT - STATUTORY BASIS

Through December 31, 2002

	2002	2001	2000	1999	1998
INCOME:					
Gross premium income	$ 9,213,496	$ 7,609,039	$ 7,047,490	$ 7,017,500	$ 8,200,298
Less reinsurance	(1,481,057)	(1,537,403)	(1,564,840)	(1,920,939)	(1,776,418)
Policy dividends, coupons and supplementary contracts	285,998	0	126,686	116,481	326,873
Investment income & IMR, net	6,598,698	6,304,646	6,372,411	6,328,206	6,219,335
Real estate income, net	(36,573)	(40,818)	38,303	(49,283)	(34,505)
Reinsurance commissions & reserve adjustments	956,393	1,158,056	1,136,822	933,641	1,332,913
Other income	0	0	0	0	0
Total operating income	15,536,955	13,493,520	13,156,872	12,425,606	14,268,496
OPERATING EXPENSES & RESERVES:					
Increases in policy reserves	5,085,710	2,891,177	237,667	1,257,883	2,481,890
Policy dividends, coupons and supplementary contracts	98,096	86,077	153,062	205,651	137,032
Interest and adjust. on policy, deposit and other funds	151,615	98,848	0	0	0
Policy benefits	4,171,264	3,991,578	6,577,479	4,858,189	5,504,936
Commissions	889,042	792,627	821,690	1,011,177	1,071,930
General expenses	2,298,799	2,300,401	2,207,954	2,244,782	2,251,674
Taxes, licenses & fees	290,888	286,378	295,955	372,291	196,964
Premium loading increases/(decreases)	(29,462)	14,899	(66,545)	(43,257)	31,461
Interest on reserve deposits	1,702,163	2,092,882	2,023,788	1,941,021	1,883,843
Total operating expenses & reserves	14,658,115	12,554,867	12,251,051	11,847,736	13,559,730
NET GAIN/(LOSS) FROM OPERATIONS	878,840	938,653	905,822	577,870	708,766
Realized capital gains/(losses)	(1,062,866)	72,411	(1,971,354)	(53,709)	530,097
(Gains)/losses transferred to the IMR	(373,695)	(177,546)	1,595,230	38,232	(716,746)
NET INCOME	$ (557,721)	$ 833,518	$ 529,697	$ 562,393	$ 522,117
Paid ordinary sales	47,098,345	46,862,180	51,440,303	96,055,238	108,151,335
In force at end of year	561,689,874	579,995,639	592,101,003	631,399,003	646,820,402
Total admitted assets	$ 92,985,573	$ 87,031,247	$ 83,434,101	$ 83,808,089	$ 81,564,555

SURPLUS ACCOUNT - STATUTORY BASIS

	December 31, 2002	December 31, 2001
CAPITAL AND SURPLUS DECEMBER 31, PREVIOUS YEAR	$5,685,573	$5,998,498
Gain from operations	878,840	938,653
Net Realized capital gains or (losses)	(1,062,866)	72,411
Less gains to Interest Maintenance Reserve	(373,695)	(177,546)
(Increase)/decrease in Asset Valuation Reserve	612,210	(310,293)
(Increase)/decrease in non-admitted mortgages and real estate	19,509	25,996
(Increase)/decrease in non-admitted stocks	0	0
(Increase)/decrease in non-admitted other invested assets	0	1,217
Net (increase)/decrease in agents' balances and other non-admitted items	(21,821)	7,751
(Increase)/decrease in net unrealized capital gains (losses)	142,602	86,097
Cumulate effect of changes in accounting principles	0	(252,722)
Dividends paid on Company preferred stock	(272,011)	(362,692)
Paydown of financial reinsurance balance	(351,766)	(346,922)
Exercise of common stock directed warrants	0	5,125
CAPITAL AND SURPLUS, CURRENT PERIOD	$5,256,575	$5,685,573

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North Coast Life - THIRTY-EIGHTH ANNUAL REPORT

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