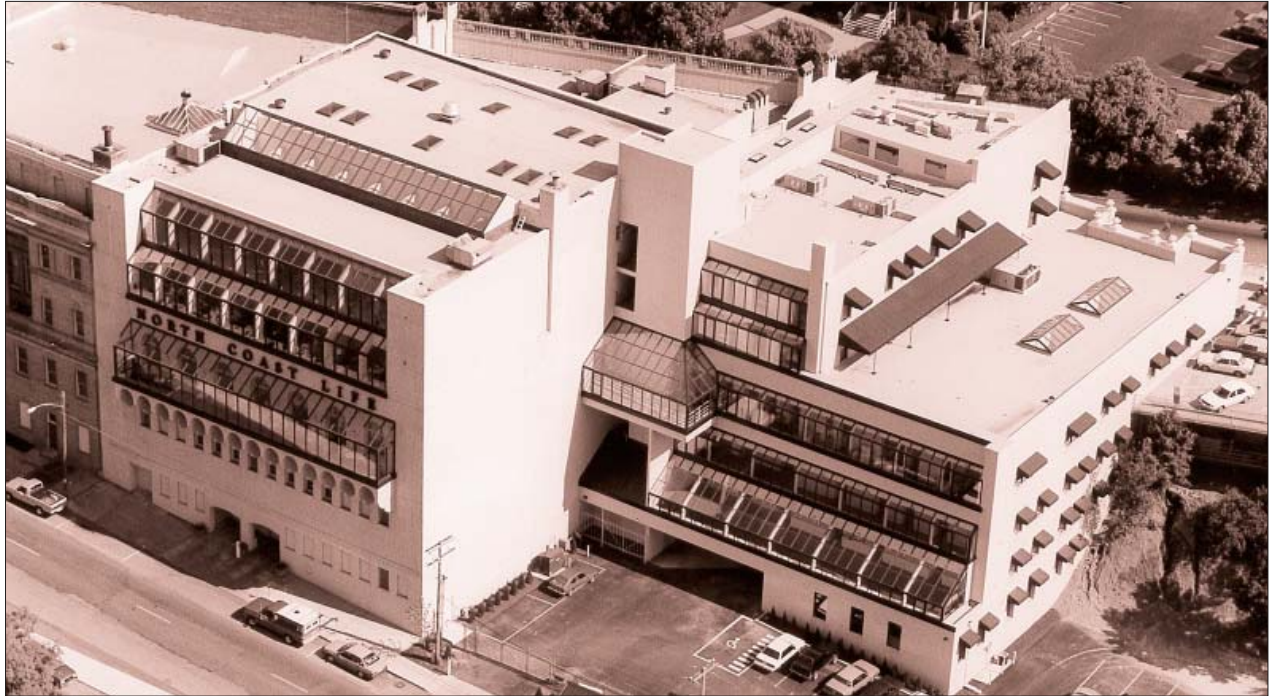




North Coast Life

ANNUAL REPORT TO STOCKHOLDERS FOR 2004



Pictured is a helicopter view of the buildings at West 1116 and 1124 Riverside Avenue in Spokane which constitute the Home Office of your Company. These buildings were joined together and today function as one building. Your Company occupies the floor directly above where the name of the Company appears on the back of the building, and the balance of the buildings are leased to others. Both buildings are on the National Register of Historic Places and are in the Riverside Historic District..

DIRECTORS

Ronald D. Andrews
Gavin J. Cooley
William C. Fix

Nicholas R. Knapton
David M. Ogden

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
Sr. Field Vice President-Sales
Southern California
and the Southwest
Since 1978

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

Robin L. Johnston, CPA
Treasurer
Since 1992

Randy G. Thomas
Regional Vice President-Sales
Pacific Northwest
Since 1999

Gordon L. Eastman
Regional Vice President-Sales Hawaii
and Northern California
Since 2003

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. Butler, FLMI
Assistant Secretary
Stock Transfer
and Word Processing
Since 1974

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

Sharon G. Gustafson, FLMI
Director of Accounting
Since 1987

Jeff L. Shaver
Director of Internet
Sales Programming
Since 2002

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

HIGHLIGHTS

	<u>2004</u>	<u>2003</u>
Net Gain From Operations	\$ 882,389	\$ 708,607
Paid New Life Insurance	\$ 36,292,969	\$ 29,385,147
INSURANCE IN FORCE	\$ 507,958,291	\$ 527,949,274
(FACE AMOUNT)		
ASSETS	\$ 119,774,058	\$ 97,668,927
ASSET RESERVES		
ASSET VALUATION RESERVE (AVR)	\$ 656,517	\$ 148,763
INTEREST MAINTENANCE RESERVE (IMR)	\$ 1,731,421	\$ 1,000,174
STATUTORY CAPITAL AND SURPLUS.....	\$ 6,171,449	\$ 5,727,774
RISK BASED CAPITAL RATIO.....	429.0%	395.3%
INVESTMENT RATE OF BONDS AND PREFERRED STOCK	6.68%	7.07%
AVERAGE SIZE LIFE CASE	\$ 75,297	\$ 79,205
(FACE AMOUNT)		
RETURN ON EQUITY	6.1%	8.7%

A LETTER FROM THE PRESIDENT

During 2004 we continued the strong rebound that began in 2003.

From the “Condensed Summary of Operations and Comparative Report-Statutory Basis” for 2004 which appears on page 20 of this Annual Report, you will see that the Company had a net gain from operations of \$882,390 for 2004, a new record, which resulted in a net income of \$365,798 for the year. The Company’s assets moved up a strong 20% to \$119,774,058 from \$97,668,927, capital and surplus rose to \$6,171,449 from \$5,727,774, and our asset reserves increased to \$2,387,938 from \$1,148,937. Of those last amounts, the Interest Maintenance Reserve rose to \$1,731,421 from \$1,000,174 and our Asset Valuation Reserve to \$656,517 from \$148,763. Our Risk Based Capital ratio also rose to 429% from 395%.

While we have mentioned the Asset Valuation Reserve (AVR) and the Interest Maintenance Reserve (IMR) in previous Annual Reports, we continue to receive questions about them from our stockholders. These reserves are set up under the NAIC rules for statutory accounting for all life insurance companies. The Interest Maintenance Reserve (IMR) receives profits on the sale of securities which are then amortized into income over the remaining risk period of the securities which are sold. The theory is that capital gains need to be amortized to maturity in order to match those assets with related liabilities. Before the current rules these profits would have gone into the operating statement immediately. The Asset Valuation Reserve (AVR) was established as an additional reserve for credit risk on securities including securities that are downgraded by the rating agencies. The AVR has a moving cap, which is 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. During 2004 we sold a number of below investment grade securities and reduced them by about 35%.

We estimated over a year ago that we would need to add perhaps as much as \$1,500,000 to the IMR and AVR in 2004 and 2005, but we now believe that we will need to add no more than perhaps \$350,000 in 2005 because of the strong increase in the IMR and AVR reserves during 2004.

We more than doubled our operating income to about \$31 million, sparked by a six-fold increase in annuity premiums to over \$15 million. Over half of those premiums came from three year maturity annuities which were sold as a substitute for Certificates of Deposit, and an actuarial review of the profitability of those annuities led to the conclusion that we should not sell too many of them. We expect that these short-term annuities may suffer a higher withdrawal rate beginning in the year of their maturity, 2007, than other products would have. This also prompted us to review our investment portfolio and during the year and we formally put together an investment “ladder” (that we had been building for several years) which includes sufficient maturities of bonds in the year 2007 to cover the withdrawal of virtually all of the cash values in the three year annuities. We expect sales of the three year annuities to be marginally profitable to us, nonetheless, and their profitability will be enhanced if their persistency is better than a “worst case” projection. Another reason for withdrawing the product is that the Washington legislature adopted revised non-forfeiture factors for annuities based on the recommendation of the National Association of Insurance Commissioners, and similar legislation was adopted throughout the nation. These lower factors were required to be used beginning in 2005 and during the year we redesigned our short-term annuity products so that we will now have no maturity shorter than seven years. We currently are filing revised annuity forms and will release them to our agents when they are approved in all of the states in which we do business.

Life insurance products also showed convincing growth in 2004. Our sales leader in life continues to be our interest-sensitive whole life, distributed under the trademark name “Versatile Life.” Face amount sales of that product increased 9% but premium jumped 77%. Our Whole Life I, which is a traditional Whole Life product and sold as an alternative to an interest-sensitive plan, grew 107% in volume and 93% in premium in 2004. Our Whole

Life IV, a simplified issue whole life product that targets the senior market with issue ages to 85 and with a \$25,000 face amount maximum, was up 129% in volume and premium was up over 63%. We also sell a graded benefit whole life product marketed to seniors to age 80 also with a \$25,000 face amount maximum which we call our Whole Life GB. In 2004 volume was up 297% and premium 322%. Our "Lifestyle Term", another trademarked product, is used both as a rider and as a stand alone term insurance product in our annual renewable term (ART) to age 100 plan. Growth in that plan increased 30% in volume and 37% in premium.

We have mentioned before that the big jump in annuity premium was in our SPDA-3, a short term annuity with a 3 year surrender charge. We made the difficult decision, guided by our consulting actuary, to halt sales in two SPDA plans, the SPDA-3 and the SPDA-5, effective May 1, 2004. More will be said about this later in this report under the heading "Sales, Products and Internet Development." We do not anticipate as large a volume of annuity sales in 2005, and annuity sales through the time of this writing in early March, are running about half of the premium volume of last year. Our annuity product line has two flexible premium deferred annuities (FPDAs), four single premium deferred annuities (SPDAs) and a reversionary annuity, accidental death only plan.

As will be commented on later in this Annual Report, during 2004 our agency force remained approximately the same size as the end of 2003, 196 general agents and 40 agents and brokers, located throughout the twelve western states in which we operate and also in Guam and in the Commonwealth of the Northern Mariana Islands. California remains the state in which we do around a third of our business annually. This is not surprising, because California has a population which constitutes about two-thirds of all the people who live in all of the states in which we are admitted to do business. As you will note from the comments in other parts of this Report, our entire industry, in my opinion, is migrating into an electronic world and we are becoming prepared to meet the challenges which those changes will require.

We have reported to you in previous years that during 2002 our Company reviewed its method of adjusting excess interest rates and adopted a new system. This new system was prompted by the concern that, should interest rates begin to rise fairly rapidly, we could not raise interest rates on all of our old policies in force when we were only investing new money at the rising rates. At that time we established different "asset blocks" of investment funds from which the excess interest on newly issued policies would be paid. Effective July 1, 2004, we implemented that system by establishing both an old and new asset block. All of our Versatile Life policies issued prior to July 1, 2004, carry an excess interest rate of 4.75% together with a bonus at year fifteen of .25%, and the Versatile Life policies issued after July 1, 2004, will carry an excess interest rate of 5% plus the same bonus. All of the new and old Flexible Premium Retirement Annuities (1985 version) will be at 4% as will the Flexible Premium Retirement Annuity riders, and all of the new and old FPRA II policies will carry 4% but also an additional 2% first year for IRA, Roth and TSA products (the additional 2% percent comes out of the commission). The SPDA 3 and 5 products were withdrawn, as mentioned above. We believe that interest rates throughout the economy will slowly rise during 2005 and we believe that our investment portfolios will produce the profit margins we need, together with our premium income, to assure the profitability of our Company.

During the fourth quarter of 2002 we suspended the payment of our preferred stock dividend, and the dividend has not been declared since that time. This has given us the time to pay off the remaining surplus relief (financial reinsurance) which is scheduled to occur at the end of 2005 and to rebuild the AVR and IMR. We anticipate the restoration of the dividend in 2006. At December 31, 2004, your Company had 182 common stockholders and 204 preferred stockholders.

Your management actively continues to keep the Company's expenses steady. The Company's general expenses in 2004 were approximately the same as they were in 1991. The Company, of course, has grown substantially since that time, but our technological advances have enabled us to service considerably more business with the same experienced staff that we have had for many years.

Further comments with respect to our sales, investments, and an analysis of our operations and financial statements follow in other parts of this Report, together with further comments about the future.

We believe that our basic business is both sound and profitable, and we intend to expand our sales at a reasonable pace without straining surplus over the next several years.



C. Robert Ogden
President

INVESTMENTS

At December 31, 2004, our bond portfolio showed a statement value of \$87,693,287 and an NAIC market value of \$88,500,014. Our preferred stock portfolio at that date showed a statement value of \$9,683,809 and an NAIC market value of \$9,995,170. During the year the Securities Valuation Office of the National Association of Insurance Commissioners changed a number of securities which we purchased as bonds to preferred stock and vice-versa. Under Washington law we are permitted to have 10% of our assets in preferred stocks, and at December 31, 2004, we are well within the 10% limitation.

The average yield to maturity on the bonds and preferred stocks purchased in 2004 was 6.11%. The bonds and preferred stocks purchased prior to 2004 have a weighted average yield to maturity of 7.74%. The Company's total portfolio at year end 2004 had a weighted average of 6.68%. The average yield to maturity of securities purchased so far in 2005 is 7.11% including preferred stocks on which we receive the Dividend Received Deduction.

During 2004 we substantially reduced the number of bonds below investment grade. We hold no preferred stocks below investment grade. Our mortgage loan portfolio at the end of the year was down nearly 50% from previous year end, and the remaining mortgage loans will be allowed run off over time.

During 2004 we revised our investment strategy with respect to the matching of maturities of securities, especially in 2007, and we have rearranged our investment maturities so that we have a reasonable face amount of bonds maturing in each year for the next 30 years. This is the "investment ladder" previously referred to, and it should provide us with a cushion for the surrender and annuitization of the increasing number of annuities that we have been selling. Our Investment Committee is actively engaged in making certain that new cash flows arising from new business are invested in durations appropriate for the characteristics of that new business.

Our Statement of Investment Policy requires us to purchase only investment grade securities, and to continue to raise the quality of the securities in our portfolio while still seeking as good a yield to maturity as is safely possible. That Statement also permits the Company to hold an equity portfolio in mutual funds, but the Company has not implemented that because of limitations in Washington law on the amount of equity which we can hold and because conditions in the equity markets during the past year were not favorable.

We have never made a practice of deliberately purchasing high yield or "junk" bonds. All of the purchases that we have made have been in bonds of Class 1 or 2, which are bonds of investment grade. We have bonds of thirteen issuers below investment grade all of which result from downgrades and none of which we feel, at the present time, are threatened by further reduction in classification. Because we do not have "surplus surplus" we do not make a practice of selling bonds when they are reduced in rating one grade, but we do sell bonds if they are reduced a second time or reduced two grades in the first move. We watch very carefully, and on a daily basis, all of our securities which are below investment grade. In some cases we have sold these securities at a loss where we could take that loss out of the Interest Maintenance Reserve which was established for the purchase of absorbing such losses.

We believe that interest rates will rise slowly during 2005, but will remain relatively low compared to past experience. Depending upon the recovery in the economy and in particular depending upon the growth of new jobs, we expect the Federal Reserve to be very attentive to the resurgence of inflation. For the past two years the Federal Reserve has followed a policy of announcing its intentions and raising interest rates one quarter percentage point each quarter. We now believe, as this was written early in March, 2005, that pressure is building for additional yield to be accorded to longer maturities and we anticipate a rise in interest rates in general.

We will continue to maintain the investment in the partnership interest in our home office building in Spokane and also in the ownership of West 1124 Riverside Avenue Partners which owns the office building adjacent to and connected with our home office building. The two buildings are operated as a unit and all of the emergency backup systems are commonly shared. We have established a glass atrium between the two buildings which has helped to reduce the cost of heating and cooling. We invite you to come and visit our Home Office and tour the buildings when you are in Spokane.

At December 31, 2004, we maintained \$14,605,882 in policy loans and liens. Our policy loans are almost entirely at 1% above the rate of "excess interest" which we pay on our ordinary life products, which we have mentioned before. 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 that we made during 2004, however, were approximately the same as the rate at which we could invest the same money in bonds.

For our Company's life insurance and annuity products to be profitable we need a spread of approximately 200 basis points for the life products and 250 basis points for the annuity products. As I mentioned, this year we will be applying 5% as the excess interest on new Versatile Life products which we sell. The rate on our Flexible Premium annuities is 4%. Yields that we are obtaining so far in 2005 on new bond purchases are marginal as to the spread which we need, but our investments made in previous years are returning a rate above that which we are currently obtaining on new bond purchases. The results are covering the spread that we need. In addition, we believe that our credited interest rates are currently favorably positioned against our competition. We subscribe to a service which gives us a monthly analysis of the credited interest rates of 23 interest sensitive whole life products with which we compete, and 188 flexible premium deferred annuities and 263 single premium annuities.

You will note also that at the end of 2004 we were carrying non-admitted assets of \$2,385,620 almost all of which is a deferred tax asset of \$2,285,705. "Non-admitted assets" 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, in addition to the deferred tax asset, mortgages which are more than three months in arrears, commissions which we have advanced to our agents (agents' balances and loans), and the Company's furniture, equipment and automobiles, other than computer equipment. As our sales expand the level of our agents' debit balances usually grows.

Our home office building at West 1116 Riverside is profitable. We rent the entire first floor to the Attorney General of the State of Washington and occupy the second floor for which we, of course, charge rent to ourselves. The building at West 1124 Riverside also is profitable but we do have some vacant space. Both buildings are class A office space and we believe some of the most desirable in Spokane because of the view of the Spokane River and Falls and the close proximity of the downtown area. Our buildings are in the Riverside Historic District and both are listed on the National Register of Historic Places.



C. Robert Ogden
President

SALES, PRODUCTS AND INTERNET DEVELOPMENT

Overview of 2004

Expenses were reduced in several areas during 2002 and 2003. The reductions included less direct mail recruiting of agents, cutting back the work time and salaries of two Regional Sales Vice Presidents and canceling an agency convention planned for April 2003. With things turning around, the 2004 sales budget increased to allow additional direct mail recruiting and add an additional week to the work schedule of Randy Thomas, our northwest states Regional Sales V.P. I am pleased to report the 2004 year end results show solid growth in production from existing and new producers, and impressive sale increases in all product lines.

Life insurance products showed convincing growth in 2004. The Company sales leader continues to be interest-sensitive whole life, distributed under the trademarked name "Versatile Life." Versatile Life serves the family market and the most popular plans include the use of 5-year, 10-year, 15-year or 20-year level term insurance riders added to the base insured and/or spouse in one policy and also includes coverage on all children in the family as well. Sales in 2004 of Versatile Life were equal last year in policy count with 259 placed cases, however, face amount increased 9% to \$14,844,880 from \$13,669,399 and premium jumped 77% to \$401,772 from \$226,608. Whole Life I (WL-1) is a traditional whole life product, which is sold as an alternative to an interest-sensitive plan (Versatile Life). The product is used in both the family and senior markets. In 2004, WL-1 placed cases grew 107% to 93 cases from 45, volume was up 113% to \$5,837,479 from \$2,740,954, and premium was 93% greater than 2003, \$56,566 vs. \$29,252. Whole Life IV (WL-IV) is a simplified issue whole life product that targets the senior market with issue ages to 85 and has a \$25,000 face amount maximum. In 2004, placed cases grew 50% to 21 cases from 14, volume was up 129% to \$332,500 from \$145,000 and premium was 63% greater than 2003, \$10,931 vs. \$6,703. Whole Life G.B. (WL-GB) is a graded death benefit whole life product marketed to seniors through age 80, with a \$25,000 face amount maximum. In 2004, placed cases grew 253% to 60 from 17, volume was up 297% to \$1,252,146 from \$315,788 and premium was 322% greater than 2003, \$50,266 vs. \$11,911. The "Life-Style Term" level premium term insurance plans used as riders also serve as the company's stand alone term insurance product line and includes an additional Annual Renewable Term (ART) to age 100 plan. We continue to explore a preferred underwriting class for our term products, however, they are profitable to the company, offer competitive rates per thousand in the \$25,000 to \$200,000 face amount market, and have had their best success as riders attached to our Versatile Life and Whole Life I permanent insurance plans. Growth in stand alone term plans over 2003 resulted in a 44% increase in cases, 49 vs. 34, a 30% increase in volume, \$8,012,964 vs. \$6,186,000, and a 37% increase in premium, \$34,381 vs. \$25,017.

The annuity product line has two flexible premium deferred annuities (FPDAs), four single premium deferred annuities (SPDAs), and a reversionary annuity, accidental death only plan (Care). The flexible premium deferred annuities are designed to allow frequent deposits for long term savings goals for non-qualified or tax qualified needs. The plans serve both the family and senior retirement savings markets. In 2004, FPDA placed cases grew 34% to 205 vs. 153, and premium increased 94% to \$3,269,332 from \$1,686,922. By late April of 2004, NCL had a substantial increase in SPDA sales. In particular the SPDA-3, which is a short term annuity, having only a three-year surrender charge. We made the difficult decision, guided by our consulting actuary, Tony Hollobon, to halt sales in two SPDA plans, the SPDA-3 and SPDA-5, effective May 1, 2004. The SPDA-5 is also a short term annuity, having a five-year surrender charge period. The four SPDA plans require a minimum \$5,000 deposit and do not allow additional deposits past the first year. The plans attract monies from bank certificates of deposit or other

company SPDA plans. The plans serve the senior retirement market. 2004 sales of SPDAs resulted in 235 cases and \$11,411,827 of premium, vs. 3 cases and \$35,457 in 2003. The reversionary annuity, accidental death plan or "Care" is oriented toward the family market. 2004 sales of "Care" resulted in 152 cases and \$30,565 of premium, vs. 10 cases and \$2,022 in 2003.

Recruitment of Agents/ Current Agents

North Coast Life has three Field Vice Presidents who are responsible for recruiting in the states we are licensed in. Direct mail recruiting increased in 2004 over 2003, however, the Internet is another outlet for attracting new agents through our Web-site, *www.nclife.com* and through search engines, such as *google.com*. As mentioned in last year's report, our effort to increase Web-based recruiting has resulted in a noticeable increase in sales in 2004 and will have a positive impact on sales going forward.

As an example, early in 2004 we received inquiries about our company from an agency in Portland, Oregon, who found us on an Internet search for annuity sales. Our single premium deferred annuity product line and our flexible premium deferred annuity product line were of interest to them. We have developed an excellent relationship with the agency, which has three offices in western Oregon and one in western Washington. Although their primary interest was in our short term SPDA-3 annuity, they have placed a significant amount of flexible premium annuity business as well, and plan to continue to give us additional new business in the years ahead, although not at the level we experienced early in 2004.

We continue to see positive growth in all territories for new agents. Randy Thomas, our Regional V.P. in the northwest states of Idaho, Montana and Washington, has seen the greatest increase of new recruits in 2004. Gordon Eastman, Regional V.P. for Hawaii has moved back to California and is responsible for recruiting in both Hawaii and Northern California. He will handle the responses for a direct mailing planned for the San Joaquin Valley in a few months, which includes the cities of Bakersfield and Fresno. Dick Hillier, Senior Field V.P., is responsible for Southern California and the states of Nevada and Arizona. We recently mailed an area of Southern California for him, and plan to bring him and Gordon up to the home office in May to discuss general agency topics, new product development and sales strategies for 2005.

NCL also has two Managing General Agents, Ken Peterson of Group Employees and Associates, Salt Lake City, Utah, and Roger Surban, Citadel Insurance Underwriters, Guam. Both have been steady producers for many years. We continue to view Guam as an area of increasing sales through the recruiting of new agents. Production grew by over 200% in Guam during 2004.

A "quality not quantity" recruiting approach has measurably improved the persistency of new business we currently receive and has helped to reduce policy lapses. Our recruitment approach is to increase the agent count with agents writing a reasonably steady amount of quality business, without relying on a few agents writing a considerable amount of business that can be subject to poor persistency. We continue to tighten our recruiting requirements and every agent applying for a contract is checked for outstanding debit balances with other companies through Vector One, an online debit account reporting company similar in concept to MIB (Medical Information Bureau). Our current agents are giving us good quality, persistent business. We continue to monitor individual agent persistency through several reports generated monthly for the agency department management team.

New Products

Per new laws mandated in 2006, NCL's annuity products are in the process of being replaced to permit a lower minimum rate to be credited. We have filed in Washington state and received approval for a Flexible Premium Deferred Annuity (FPDA) plan, which will replace our current FPDA products (FPRA-85 and FPRA-II). We also filed in Washington and received approval for two new SPDAs with a 7 year surrender charge. One has a market value adjustment and the other a bailout provision. The two SPDAs will replace our two remaining SPDA products (SPDA-7 and SPDA-10). The minimum interest rate on the new annuity products in 2005 will be 2.10%. The current interest rates to be credited will be determined once the products are approved in all states we do business in and will be determined for new issues based on available new investments.

We are not looking to add or change our life insurance products in 2005, however, we continue to explore preferred underwriting rate classes and plan to have discussions during our sales management spring meeting on several issues, including level-based commissions for our term products.

NCL On-line

Our main Website, *www.nclife.com*, has over 300 pages of information. It currently receives over 10,000 unique visitors a month, and includes full web quoting of our life and annuity products complete with printable illustrations. Through a click on "Become an Agent" an agent can enter their name and contact information for an NCL Regional V.P. to reply to. The NCL Website also provides product information and financial information to the general public and several printable forms for our policyholders, who can now make premium payments using their credit card.

To enhance our web-based agent recruiting we currently have over 1,100 top 30 positions in the 10 major search engines, including *Google.com* at no outlay of advertising expense. This has been achieved by building extensive search engine capabilities through multiple Websites based on the territories we are licensed to do business in. This is our main search engine tool to attract new agents. Here an agent can enter their name and contact information for an NCL Regional V.P. to reply to.

Online lead generators are designed for the general public interested in purchasing life insurance and/or annuity products. We continue to progress in this area toward the goal of direct sales to the public, however, at this time the sites generate leads based on information provided to be followed-up by a licensed NCL agent or a home office employee. We are also developing an interactive agent product training site, which also allows the downloading of our agent software and running product illustrations.

Agency Software with Internet Applications Submission

Our report to you last year discussed the new look and vision of our agency software. The main menu guides the agent to our product line by the three markets NCL products target; the families market, the senior market and the retirement/savings market. As an example, by clicking on families market, you see the product illustration menus for our family product line, which is Versatile Life, Life-Style Term, 3 Year Term, and flexible premium annuities.

We continue to improve our agency software, which now allows the submission of all product applications and supporting documents over the Internet. This includes the online entry of all application questions, illustrations requirements, supporting forms such as 1035 exchanges specific to each state, etc., plus electronic digital signatures. The main agent menu now includes agent training videos to guide the agent through the use of digital applications, electronic check submission, digital signatures and the Internet submission manager.

We continue to move forward with Web-based projects in 2005. We are currently working on giving our Policyholders the ability to view pertinent information about their life insurance and annuity policies online, through secured access. Our agents would also be included in this project to allow them to view the underwriting status of submitted business and paid business new commissions.

A handwritten signature in black ink, appearing to read "Robert J. Ogden". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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:

A marked increase in premium income, favorable policy experience, and controlled expenses contributed to strong operational earnings. However, net income declined 20% from the prior year due to the exhaustion of income tax loss carryforwards in prior years which has led to an increased income tax burden, and the continuation of the effort to reduce below-investment grade securities in the investment portfolio.

Balance Sheet:

Capital and Surplus:

The Company's capital and surplus increased \$302,497 (5.3%), moving from \$5,727,774 at December 31, 2003 to \$6,171,449 at December 31, 2004. The increase resulted partially from the recovery of certain investment holdings which had previously been carried at market value. Additionally, operational income was balanced by reserving requirements needed to rebuild valuation reserves, payments on financial reinsurance, as well as the admission of certain deferred tax assets.

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

	2004	2003	2002	2001	2000
Capital & Surplus	\$ 6,171,449	\$ 5,727,774	\$ 5,256,579	\$ 5,685,573	\$ 5,998,498
Asset Valuation Reserve	656,517	148,763	598,924	1,211,135	894,352
Financial Reinsurance	(349,448)	(707,924)	(1,058,463)	(1,410,229)	(1,757,151)
Net Capitalization	\$ 6,478,518	\$ 5,168,613	\$ 4,797,040	\$ 5,486,479	\$ 5,135,709
Ratio of Net Capitalization to Total Assets	5.4%	5.3%	5.2%	6.3%	6.2%

The table generally demonstrates a recovering capitalization from the 2002 decline. Although the net capitalization showed a strong increase in 2004, the increase in total assets continues to hold the ratio of net capitalization to total assets down. As the Company continues to rebuild its asset reserves and reduce the financial reinsurance, we anticipate the strengthening of this ratio.

Assets:

Bonds held by the Company have increased nearly 30% during the current year as a result of cash flow arising from strong sales. Because these sales were primarily associated with a short-term product, the Company restructured the composition of the portfolio to match the cash flows associated with the current in-force business. While this restructuring caused the Company to invest in some lower-yield securities which may hold Investment Income down over the next couple of years, the interest corridor needed on specific products was met.

Preferred stocks declined approximately 17% from the prior year end, in order to maintain compliance with state regulatory guidelines.

While the market value of the portfolio has declined somewhat from the prior year, as follows, it was expected due to the rising interest rate environment.

	12/31/04	12/31/03	Change in Unrealized Gain/(Loss)
Bonds:			
Market value	\$ 88,500,014	\$ 65,551,658	
Carrying value	87,693,286	63,576,485	
Unrealized Gain (Loss)	806,728	1,985,173	(1,178,445)
Preferred Stocks:			
Market value	9,995,170	12,077,152	
Carrying value	9,683,809	11,686,728	
Unrealized Gain (Loss)	311,361	390,424	(79,063)
Total Unrealized Gain (Loss)	\$ 1,118,089	2,375,597	\$ (1,257,508)

With respect to the quality of the bonds and preferred stock investments, \$6.1 million, or 7% of these holdings are below the National Association of Insurance Commissioner's (NAIC) "Class 1" and "Class 2" designations of "Investment Grade", which is a 32% decline from the prior year end. Of this amount, none are included in preferred stocks, and only 7% of the total are below NAIC "Class 3". The market value of these investments is approximately \$420,000 less than statement value as of December 31, 2004. The Company's Investment Committee meets quarterly to review all below-investment-grade securities in detail, in addition to other monitoring activities. At this time, Management has determined that no additional writedowns in statement value are warranted.

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.

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 fully offset by the low general market interest rates which have allowed the Company to credit lower rates on its product offerings.

Mortgage loans and real estate owned have continued to decline as the remainder of the Company's mortgage portfolio continues to run off. The remaining loans in the portfolio are well seasoned and low-risk first lien residential notes with low loan-to-value ratios.

The Company was able to admit \$162,536 of deferred tax assets during the year, relating to deferred acquisition costs that will be realized during the next year for tax purposes. This increase in admitted assets was a direct increase to the Company's surplus account.

Liabilities:

The majority of the Company's liabilities are comprised of Policy Liabilities (97%). These liabilities increased 23.0% in the current year, which is a direct correlation to the strong sales realized during the year.

The Interest Maintenance Reserve (IMR) increased 73% to \$1,731,421. The increase resulted from approximately \$875,000 in realized gains on the sale of IMR-related fixed income securities (generally rated BBB- or better by Standard and Poor's). The IMR stands at approximately 1.5% 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) increased from \$148,763 to \$656,517. The increase resulted from: 1) \$517,000 in realized losses on securities sold; 2) \$784,000 in unrealized gains on securities which had either been previously held at market and now sold or improvement in quality of securities which allows them to be carried at amortized cost rather than market value; and 3) \$241,000 in mandatory contributions. At December 31, 2003, Management had predicted that approximately \$350,000 in mandatory contributions would be required based on the quality of the portfolio; the lesser amount of \$241,000 displays the improvement in quality of the portfolio since the prior year. Management anticipates required AVR levels between \$800,000 and \$1 million over the next several years. These levels will require approximate minimum AVR contributions of \$300,000 over an estimated two-year period. Any future decline in credit quality will increase the required AVR contributions.

Management acknowledges the risk that the AVR may not be adequate to absorb potential future capital losses. However, with the improvement in credit quality of the portfolio, the potential strain on the Company's Surplus account due to required contributions has been greatly lessened.

The Company's Capital and Surplus stands at \$6,171,449. The Company is required to maintain \$4.8 million of Capital and Surplus in its domiciliary state of Washington. In California, where approximately 38% of the Company's life premiums are derived, the Company is required to maintain \$5.0 million of Capital and Surplus. The current level of Capital and Surplus is still somewhat 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. In addition, the Company's surplus account includes a \$400,000 Surplus Note to an affiliate of the Company, which must be repaid in 2008.

Results of Operations:

The Company achieved a 2004 net gain from operations of \$882,389. Strong first year life and annuity premium and investment income coupled with moderate policy benefits increases and stable general expenses contributed to this healthy gain.

Income:

The Company's gross premium income from life and annuity policies for the year ended December 31, 2004 was substantially higher than the preceding year as follows:

	<u>Year Ended</u> <u>December 31, 2004</u>	<u>Year Ended</u> <u>December 31, 2003</u>
First year life premiums	\$ 652,777	\$ 283,396
Renewal life premiums	5,230,777	5,451,550
Annuities	18,036,307	3,020,984
Accident & Health	540,941	2,428
	<hr/>	<hr/>
Total gross premiums	<u>\$ 24,460,802</u>	<u>\$ 8,758,358</u>

First year life sales have seen a return to and slight increase over, sales prior to 2003, when an effort was made to keep sales down due to the high costs associated with new business. Renewal premiums have remained strong, with a slight decrease as expected due to the reduction in first year sales in the prior year. Accident and health premiums are up as a result of the Company becoming a carrier in a cancer medical reimbursement plan. The Company receives a reinsurance credit for these premiums, which provides a net effect on the Company's books of the 10% fronting fee received. The primary cause of the premium increase is the annuity sales. The Company signed a new agency this year which began selling our 3 and 5-year SPDA products as a viable alternative to the CD market, in which they had previously done a large volume. It became apparent to Management that the volume of business from these sales could create some surplus strains for the Company, and as such, the Company ceased sales of these products shortly thereafter, and is currently in the process of bringing some longer-term products to the marketplace to replace them.

Net investment income increased 12.4%, which is consistent with the increase in cash and invested assets.

The Company recorded a loss of \$107,187 in Other Income which is the receipt of funds relating to a settlement of a class action lawsuit involving a bond previously held by the Company. During the prior year, the Company had recorded the amount due to us of \$115,425. Actual funds received were only about \$8,000.

Expenses:

Expense from increases in policy reserves increased substantially from \$4.4 million to \$18.4 million. This increase reflects the increase in annuity and first year life premiums, where most of the cost is incurred.

Gross death benefits increased 15.3% from \$754,296 to \$869,437, while the annual change in claims net of reserves and ordinary reinsurance was a decline of 7.4%. The general trend of death benefits remains relatively consistent over the past five-year period. The claim amounts are shown net of policy reserves and ordinary reinsurance but exclude the effects of financial reinsurance. (The aggregate net effect of the Company's financial reinsurance treaty is typically near zero - accordingly, it can be useful to exclude financial reinsurance from items such as death claims and surrender benefits to better understand the net impact of such items on the Company's net income):

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
1 st Qtr	\$ 385,368	\$ 321,675	\$ 218,396	\$ 153,233	\$ 207,156
2 nd Qtr	234,469	275,696	257,331	151,396	267,709
3 ^d Qtr	320,975	302,390	166,690	411,624	271,807
4 th Qtr	136,974	264,186	436,275	189,462	397,275
Annual Totals	\$ 1,077,786	\$ 1,163,947	\$ 1,078,692	\$ 905,715	\$ 1,143,947
% Increase (decrease)	(7.4)%	7.9%	19.1%	(20.1)%	XXXX

Increases in other policy benefits and commissions are consistent with the increased sales.

General expenses increased approximately \$243,000, primarily due to administrative costs associated with the group accident and health policy we began writing through a third party administrator. As with the financial reinsurance discussed above, when all components of this plan are combined, the net effect on the Company's financial statements is the 10% fronting fee income received, which totaled \$53,895 for 2004. Excluding these costs, general expenses remained consistent with the prior year.

The Company's Premium Loading rose from a negative \$(76,732) to a positive \$37,580 as a result of the increase in first-year premium sales.

Interest on reserve deposits increased from approximately \$1.8 million to \$2.3 million; however these costs net against other components of the Company's reinsurance arrangements and do not directly affect the Company's net earnings (see discussion of Death Benefits above).

Federal income taxes incurred decreased from \$66,159 to \$59,230 as a result of some recoverables on prior year taxes. With the exhaustion of all of the Company's operating loss carryforwards during the prior year, the Company expects its tax burden to significantly increase during the next few years.


Other Matters:

Risk Based Capital:

The Company's Risk Based Capital Ratio (RBC) increased to 429% from the prior-year ratio of 395%. 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% - 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:

During February 2005, A.M. Best Company reaffirmed the Company's Financial Strength Rating at C + + .



Robin L. Johnston
Treasurer

LOOKING AHEAD

Over the last two years we have been rebounding from the effects of the national recession. We believe that strain on our Company will be ending during this year and that by next year we will be able to restore the quarterly dividend payments on our preferred stock which we suspended in the fourth quarter of 2002. As mentioned earlier in this report, and in the Annual Reports for 2003 and 2002, during the years of that financial strain we greatly reduced our Asset Valuation Reserve and Interest Maintenance Reserve which were established to meet just such contingencies and by the end of 2005 those reserves will have been rebuilt. We have replaced investments throughout our portfolios with better quality securities although with lower investment yields. Nevertheless, we continue to cover the margins that we need for the profitability of our interest-sensitive life and annuity products.

During 2005 we will again push our recruiting efforts in order to expand our sales. During 2004 sales both in life and annuities responded well. 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. We also operate in Guam and the Commonwealth of the Northern Marianas (principally Saipan just north of Guam). We expect to expand our agency representation during 2005.

If you have not yet visited our Company's website at www.nclife.com you will find that it has been updated extensively. We receive many compliments about our website which we expect to use as a tool not only to recruit new agents but also to provide information to potential policyholders and, eventually, to market simple insurance and annuity products directly to the public. We believe that our whole industry is migrating into an electronic world which will open a lot of doors for our Company. We believe that we will be able to continue to have an active agent force selling some of our products while selling others to consumers directly. We have implemented electronic processing features designed to make an agent's job easier and to speed up policy underwriting and issue.

During the period of national recession the A.M. Best Company, the national insurance-rating service, dropped our rating from B- to C+ + with a negative outlook. That outlook has now been raised to stable this year, and we believe that we are on our way toward getting our rating back into the B range.

A little over 30 years ago we began the use of "financial reinsurance", a popular product in the industry, which allowed us to reduce the strain on our surplus in writing new business in growing volumes. We built the balance of financial reinsurance to a maximum of about \$4.8 million in 1992 and in the following year (1993) began to aggressively pay that balance down. This year of 2005 we will pay that balance off.

Forty years ago this year on April 28, 1965, our fledgling Company received its Certificate of Authority to sell life insurance and annuities in the state of Washington. We commenced business on May 3, 1965. Since that time we have acquired by statutory merger two other small companies and we have acquired the business in force of eight others, the last four through the Washington Life and Disability Insurance Guaranty Association. Some of those companies had themselves acquired the policies of other companies so that today we service business originated by sixteen companies other than our own. We have seen many changes in this industry throughout those years that we have embraced and from which we have profited, notably the introduction of policies giving reduced rates to non-smokers and the introduction of interest-sensitive products. We have not embraced some changes, however. In particular, we have not sold "variable" life insurance and annuity products in which the cash values can be invested in mutual funds chosen by the policyholder because those products shift the risk of investment off the shoulders of the insurance company to that policyholder. We have felt that many policyholders are not sufficiently knowledgeable to choose appropriate investments and perhaps do not understand the additional risk which they are assuming. We are now embracing further change in the industry as it moves into doing business over the World

Wide Web. We look forward to the opportunities that lie ahead. We expect an excellent year in 2005. We are confident that our investments are sound, our products are competitive, and our sales are accelerating.

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.

March 18, 2005

A handwritten signature in black ink, appearing to read "C. Robert Ogden". The signature is written in a cursive style with a large, prominent initial "C".

C. Robert Ogden
President

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

BALANCE SHEET - STATUTORY BASIS

<u>ASSETS</u>	December 31, 2004 (Unaudited)	December 31, 2003
Ledger and Non-Ledger Assets:		
Bonds (market: \$88,500,014/\$65,551,397)	\$87,693,287	\$63,576,486
Preferred stocks: (market: \$9,995,170/\$12,077,152)	9,683,809	11,686,728
Mortgages (residential)	558,249	943,160
Real estate owned (REO)	43,765	123,104
Other invested assets	1,893,338	1,800,094
Policy loans and liens	14,605,882	14,077,351
Deposits and cash	1,303,481	1,820,584
Agents' balances and loans	52,462	37,750
Furniture, equipment and autos	44,310	57,883
Computer equipment	13,420	13,409
Premiums deferred & uncollected	2,141,785	2,207,437
Investment income due & accrued	1,572,903	1,292,408
Net deferred tax asset	2,448,241	2,337,842
Amounts receivable:		
Reinsurance	1,335	2,959
Other	88,159	117,076
Guaranty Association assessments	15,252	9,981
Total Ledger and Non-Ledger Assets	<u>122,159,678</u>	<u>100,104,252</u>
Non-Admitted Assets included above:		
Fixed income investments	0	0
Mortgages, REO and related	3,143	1,850
Agents' balances and loans	52,462	37,750
Furniture, equipment and autos	44,310	57,883
Deferred tax asset	2,285,705	2,337,842
Subtotal	<u>2,385,620</u>	<u>2,435,325</u>
NET ADMITTED ASSETS	<u>\$119,774,058</u>	<u>\$97,668,927</u>
<u>LIABILITIES, CAPITAL AND SURPLUS</u>		
Policy Liabilities:		
Policy reserves	\$109,922,871	\$89,657,200
Claims payable	148,870	81,997
Policy dividends & coupons	5,000	5,000
Premiums paid in advance	58,369	81,061
Other policy liabilities	146,937	68,037
Total Policy Liabilities	<u>110,282,047</u>	<u>89,893,295</u>
General Liabilities:		
Unearned investment income	339,030	337,642
Accrued taxes	246,122	246,385
Accrued general expenses	81,272	77,697
Preferred stock dividend payable	0	0
Other amounts payable	266,200	237,197
Total General Liabilities	<u>932,624</u>	<u>898,921</u>
TOTAL LIABILITIES	<u>111,214,671</u>	<u>90,792,216</u>
Asset Reserves:		
Interest Maintenance Reserve	1,731,421	1,000,174
Asset Valuation Reserve	656,517	148,763
Total Asset Reserves	<u>2,387,938</u>	<u>1,148,937</u>
Capital & Surplus		
Capital Stock	8,045,062	8,045,062
Surplus	<u>(1,873,613)</u>	<u>(2,317,288)</u>
Total Capital & Surplus	<u>6,171,449</u>	<u>5,727,774</u>
TOTAL LIABILITIES, CAPITAL & SURPLUS	<u>\$119,774,058</u>	<u>\$97,668,927</u>

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

CONDENSED SUMMARY OF OPERATIONS AND COMPARATIVE REPORT - STATUTORY BASIS

Through December 31, 2004

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
INCOME:					
Gross premium income	24,460,802	\$ 8,758,358	\$ 9,213,496	\$ 7,609,039	\$ 7,047,490
Less reinsurance	(1,663,766)	(1,878,172)	(1,481,057)	(1,537,403)	(1,564,840)
Policy dividends, coupons and supplementary contracts . . .	65,000	0	285,998	0	126,686
Investment income & IMR, net	7,069,505	6,288,331	6,598,698	6,304,646	6,372,411
Real estate income, net	(32,528)	(36,446)	(36,573)	(40,818)	38,303
Reinsurance commissions & reserve adjustments	1,250,226	1,000,664	956,394	1,158,056	1,136,822
Other income	(107,187)	115,425	0	0	0
Total operating income	<u>31,042,052</u>	<u>14,248,160</u>	<u>15,536,955</u>	<u>13,493,520</u>	<u>13,156,872</u>
OPERATING EXPENSES & RESERVES:					
Increases in policy reserves	18,400,792	4,359,458	5,085,710	2,891,177	237,667
Policy dividends, coupons and supplementary contracts . . .	106,409	98,178	98,096	86,077	153,062
Interest and adjust. on policy, deposit and other funds	161,308	160,582	151,615	98,848	0
Policy benefits	5,052,522	3,959,362	4,171,264	3,991,578	6,577,479
Commissions	1,267,311	701,819	889,042	792,627	821,690
General expenses	2,430,452	2,187,142	2,298,799	2,300,401	2,207,954
Taxes, licenses & fees	297,112	305,592	290,725	286,378	295,955
Premium loading increases/(decreases)	37,580	(76,732)	(29,462)	14,899	(66,545)
Interest on reserve deposits	2,346,946	1,777,992	1,702,162	2,092,882	2,023,788
Total operating expenses & reserves	<u>30,100,432</u>	<u>13,473,394</u>	<u>14,657,502</u>	<u>12,554,867</u>	<u>12,251,051</u>
Net Income/(Loss) from operations before federal income taxes	941,620	774,766	879,453	938,653	905,822
Federal Income taxes incurred	59,230	66,159	613	0	0
NET GAIN/(LOSS) FROM OPERATIONS	882,390	708,607	878,840	938,653	905,822
Net Realized capital gains/(losses)	357,863	(120,076)	(1,062,866)	72,411	(1,971,354)
Less (Gains)/losses transferred to the IMR	(874,455)	(133,251)	(373,695)	(177,546)	1,595,230
NET INCOME	<u>\$ 365,798</u>	<u>\$ 455,280</u>	<u>\$ (557,721)</u>	<u>\$ 833,518</u>	<u>\$ 529,697</u>
Paid ordinary sales	36,292,969	29,385,147	47,098,345	46,862,180	51,440,303
In force at end of year	507,958,291	527,949,274	561,689,874	579,995,639	592,101,003
Total admitted assets	119,774,058	\$ 97,668,927	\$ 92,985,573	\$ 87,031,247	83,434,101

SURPLUS ACCOUNT - STATUTORY BASIS

	December 31, <u>2004</u>	December 31, <u>2003</u>
CAPITAL AND SURPLUS DECEMBER 31, PREVIOUS YEAR	\$5,727,774	\$5,256,578
Gain from operations	882,389	708,607
Net Realized capital gains or (losses)	357,863	(120,076)
Less gains to Interest Maintenance Reserve	(874,455)	(133,251)
(Increase)/decrease in Asset Valuation Reserve	(507,754)	450,162
(Increase)/decrease in non-admitted mortgages and real estate	1,494	10,672
(Increase)/decrease in non-admitted other invested assets	(2,787)	0
Net (increase)/decrease in agents' balances and other		
non-admitted items	(1,133)	70,492
(Increase)/decrease in non-admitted deferred tax assets	162,536	0
(Increase)/decrease in net unrealized capital gains (losses)	783,998	(598,858)
Cumulative effect of changes in accounting principles	0	0
Dividends paid on Company preferred stock	0	0
Paydown of financial reinsurance balance	(358,476)	(350,539)
Exercise of common stock directed warrants	0	0
Recapture of excess depreciation	0	33,987
Surplus note contribution	<u>0</u>	<u>400,000</u>
CAPITAL AND SURPLUS, CURRENT PERIOD	<u>\$6,171,449</u>	<u>\$5,727,773</u>

This page intentionally left blank.

This page intentionally left blank.



North Coast Life FORTIETH ANNUAL REPORT

1116 West Riverside Avenue, P.O. Box 1445, Spokane, Washington 99210-1445
509-838-4235 or 800-541-5858
Fax 509-747-8569 or 800-619-6143
www.nclife.com