



ANNUAL REPORT TO STOCKHOLDERS FOR 2007



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

(As of December 31, 2007)

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

Robin L. Johnston
Nicholas R. Knapton

Douglas H. Ogden
C. Robert Ogden

Robert J. Ogden
Paul S. Schultz

OFFICERS AND MANAGEMENT PERSONNEL

(As of December 31, 2007)

C. Robert Ogden, J.D.
Chairman of the Board
Since 1965

Robert J. Ogden
President
Since 1989

Randy G. Thomas
Sr. Vice President—Sales
Since 1999

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

Robin L. Johnston, CPA
Treasurer
Since 1992

Gordon L. Eastman
*Regional Vice President—Sales
Southwest and Hawaii*
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

Mark Dickinson, ASA
Actuary
Since 2007

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*
Since 1974

Diana L. Buchmann, FLMI, ACS
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>2007</u>	<u>2006</u>
NET GAIN FROM OPERATIONS	\$ 238,279	\$ 328,580
PAID NEW LIFE INSURANCE	\$ 36,118,603	\$ 28,149,696
INSURANCE IN FORCE..... (FACE AMOUNT)	\$ 460,641,312	\$ 464,581,698
ASSETS	\$ 123,164,888	\$ 126,859,533
 ASSET RESERVES		
ASSET VALUATION RESERVE (AVR)	\$ 874,403	\$ 582,730
INTEREST MAINTENANCE RESERVE (IMR)	\$ 759,593	\$ 1,038,375
STATUTORY CAPITAL AND SURPLUS.....	\$ 5,727,817	\$ 5,825,954
RISK BASED CAPITAL RATIO	407.0%	433.0%
INVESTMENT RATE OF BONDS AND PREFERRED STOCK	6.61%	6.376%
AVERAGE SIZE LIFE CASE	\$ 109,784	\$ 92,598
(FACE AMOUNT)		
RETURN ON EQUITY	4.0%	3.3%

A LETTER FROM THE CHAIRMAN

During 2007 we continued to respond to the need to revise and refile our traditional whole life products and our interest sensitive whole life product to meet the new non-forfeiture factors (which principally involve our reserves) required by the National Association of Insurance Commissioners and the new 2001 Commissioner's Standard Ordinary Mortality Table which all companies are required to have in use for all of their products no later than the end of 2008. These revisions and refilings of the policy forms involved our traditional whole life products (WL-1, WL-1C, WL-4 and WL-GB), and we began to work on our Versatile Life interest-sensitive whole life product which will be the last of the product filings necessary to comply with these new mandates. When we are finished, these revisions and filings will have required well over 100 state filings and obtaining their approvals. It also entails revisions of our computer systems to encompass the revised premiums and cash value calculations for all of the products.

During the year we also continued to revise our investment portfolio both to shorten the maturity average of the bonds which we hold and to improve their quality. We also were involved in accommodating the withdrawal by surrender of about 70% of the quite large block of annuities that were sold in 2004 and which had short (three year) surrender charges which left them vulnerable to surrender and withdrawal in 2007. We had planned for withdrawal of about 80% of the annuities with three year surrender charges by "laddering" enough of our investments that matured in the early months of 2007 so that we would have sufficient cash flow to cover the withdrawals, and this was successful. This will be discussed later in this report under the heading of "Investments".

The revisions of our term insurance products significantly decreased the term rates per thousand, particularly for ages 40 and above, and was reflected in substantially increased term insurance sales during the year.

As a result of the surrenders during the first quarter of a large portion of the single premium deferred annuities sold in 2004 with the three year surrender charges, the assets of our Company declined and at December 31, 2007, were \$123,164,888 as compared with \$126,859,533 at the end of 2006. The deferred annuity with a three year surrender charge had been on our books for several years before agents in the Portland, Oregon, area found the product on the Internet and sold it largely to people who had been holding Certificates of Deposit. We withdrew the product at the end of April in 2004.

The large block of approximately \$12 million of premium in the deferred annuities with three year surrender charges required that we revise our investment portfolio in 2004 and 2005 to emphasize short term investments in order meet the potential withdrawals in 2007. This caused us to purchase bonds with lower yields and decreased our investment income. Even though the Federal Reserve began to push interest rates down by reducing the federal funds rates from the middle of June of 2006 through 2007, we were still able to purchase new securities at much higher rates of interest and began to restore our investment income. This all will be reviewed later in this report under the heading of "Investments."

During 2007 we operated at a net gain from operations before federal income taxes of \$258,098 and incurred federal income taxes of \$19,888. For the fourth quarter of 2007 we again suspended the preferred stock dividend (which is about \$90,000 a quarter) and, after some capital losses in the securities portfolio as well as transfers to the AVR (Asset Valuation Reserve), we had a minor loss for the year of \$40,270. That news is not all bleak. In the fourth quarter we had a gain of \$181,516 as a result of the suspension of the dividend and other changes which we began to make including salary reductions, the beginning of a few retirements among our older employees and other savings which we began making and which will all continue during 2008.

At the end of 2007 following the issuance of a Solicitation Permit by the Insurance Department of Washington, the Company added \$200,000 of capital and surplus through the issuance of common stock to strengthen the surplus account. In 2007 we also reduced the surplus note that we executed in 2004 with our parent company, R. J. Martin Mortgage Company, and which is payable by the end of March, 2008. \$250,000 remains on that note. Asset reserves remained about the same, the Interest Maintenance Reserve moving down by \$279,000 while the Asset Valuation Reserve moved up by \$292,000. The capital and surplus at the end of 2007 was \$5,727,817, down about \$98,000 from the end of 2006. Because of the reductions in expenses which we began in the fourth quarter of 2007, we expect 2008 to be a profitable year although we do not expect to restore the preferred dividend until perhaps late in the year.

At the end of 2007 the market value of our bonds and preferred stocks continued to be below statement value but also began to reflect the fact that the Federal Reserve had reduced interest rates during the year which caused our portfolio value to increase. Since the beginning of 2008 the Company's preferred stock component in particular has gained substantially in market value. At December 31, 2007, our below investment grade bonds and preferred stocks totaled \$5,787,749 in statement value, a decrease of about \$2 million from the end of 2006 but close to 50% from the end of 2005. We have been making a sustained effort to shorten the maturity average of our bond portfolio and to improve its quality.

Please note the fact that the "Condensed Summary of Operations and Comparative Report-Statutory Basis" which appears toward the last of this Annual Report shows our net income for 2007 before the payment of the preferred dividend which we made during the first three quarters of the year.

Paid ordinary life sales increased in 2007 largely because of greatly increased term insurance sales, and submitted business so far in 2008 is above 2007. In addition, our persistency improved nearly 50% so that we very nearly eliminated the reduction of insurance in force which we have experienced for the last several years. We anticipate eliminating that decrease in 2008. Comments about our sales appear under the heading of "Sales, Products and Internet Development" later in this report, as do details of our financial statements and operations.

In the course of developing our financial statements for the end of the year we have again received studies from our consulting actuary about mortality and termination experience and the profitability of our major products lines. I am pleased to report to you again that our Consulting Actuary, Anthony L. Hollobon, FSA, gave us his opinion that the current mortality experience of our Company has been both reasonable and consistent. He continues to believe that our Company has the capacity to sell additional new business without a significant increase in indirect costs. We have good projections from him for the Company's profitability over 2008, 2009 and 2010.

We intend continue to hold the Company's general expenses down. Our general expenses in 2007 were about the same as they were in 1992. That is partly the result of the fact that we have made many improvements in our internal systems, including our computer systems, which have enabled us to service a greater amount of business without adding to our staff. Our staff in the Home Office is made up of very experienced people who have been with us in general for many years.

We continue to believe that our basic business is both sound and profitable, and we intend to expand our sales at a reasonable pace this year without straining our surplus. We look forward to a successful year in 2008.



C. Robert Ogden
Chairman of the Board

INVESTMENTS

At December 31, 2007, our bond portfolio showed a statement value of \$86,648,093 and an NAIC market value of \$84,199,021. An additional portfolio which we carry under the heading of Collateralized Mortgage Obligations includes equipment trust certificates, Fannie Mae and Freddie Mac obligations, and two issues of bonds backed by first mortgages. This portfolio holds a statement value of \$1,351,266 with a market value of \$1,323,385. Our preferred stock portfolio showed a statement value of \$11,021,282 and an NAIC market value of \$9,671,228. Under Washington law we are permitted to have 10% of our assets in preferred stocks, and at December 31, 2007, we are well within the 10% limitation. We own no common stocks.

The average yield to maturity on the bonds and preferred stocks purchased in 2007 was 6.61%. This compares with an average yield to maturity for purchases made in 2006 of 6.37% and in 2005 of 6.79%. So far in 2008 we are obtaining an average yield to maturity of 6.82% and expect long term rates to remain relatively high. During 2006 the Federal Reserve Open Market Committee raised the federal funds rate from 4.25% to 5.25% and the prime rate moved from 7.25% to 8.25%. In 2007 the Federal Reserve moved the federal funds rate from the 5.25% set on June 29, 2006, in three steps to 4.25% on December 11, 2007. So far in 2008 the Federal Reserve has reduced the federal funds rates first to 3.5% on January 22 and then to 3% on January 30 which has reduced the prime rate to 6%. This leaves the federal funds rate and the prime rate where they were on May 2, 2005. It is useful to remember that the Federal Reserve lowered the federal funds rate to 1% on June 26, 2003, which was the lowest level for the federal funds rate in forty-five years. Some economists are predicting that the Fed will need to continue to reduce the federal funds rate in order to continue to provide liquidity in the banking sector and make funds more available to the housing and constructions industries.

A year ago in this Annual Report we noted that interest rates had developed an “inverted yield curve” in which the two year Treasury bond yield was higher than the ten year yield. We projected that during 2007 short term interest rates would lower and long term rates would remain about the same or slowly increase. That is, indeed, what happened. The “inverted yield curve” no longer exists. Short term rates have been affected by the fact that the economy has been suffering from a “credit crunch” resulting from securitization of mortgage loans largely made between 2004 and 2007 (so-called “sub-prime” loans) where underwriting standards were seriously lowered. These securitized instruments were sold throughout the world and seem to have been concentrated in hedge funds, in the large banks, and in the investment houses. The Federal Reserve and banking system have made available short term funds so that banks could continue to lend without interest rates moving up drastically. Employment has held up reasonably well but there has been a very noticeable effect in the housing industry in which home sales and commercial construction have slowed down and housing prices have contracted in almost all areas of the country. Consumer spending, however, has remained reasonably strong but there is a possibility of an economic downturn which we predicted in our material a year ago and which was presaged by the inverted yield curve.

As a result of all of these economic movements, in 2007 we made a concerted effort to improve the quality of our investment portfolio.

We have no bonds in Class 6 at the present time, which is the NAIC rating for bonds which are in default. We have bonds in both Class 5 and 4, and all of them have been the subject of buyouts in which purchasers have not as yet been able to completely fund the transaction. Many of these purchases have been closed on revolving notes. In buyout situations, such as several of the bonds we hold, the bonds were downgraded because of the buyout and there is no word as yet with respect to reduction of the outstanding debt that was issued. We will reduce these holdings as soon as we can.

We do not believe that any of the bonds that we hold and which are in Classes 3, 4 and 5 are in any danger of default.

The bulk of our portfolio is in bonds in Classes 1 and 2 which are the ratings from AAA down through A, and BAA down through BAA3.

During 2007, as mentioned, we not only attempted to improve the quality of our investment portfolio, but also to shorten our maturities. For annuities we need to invest in maturities of two to twelve years and for life insurance policies (except for term insurance) from thirteen to twenty-five years. Currently we are not purchasing any securities that mature longer than 2028 (twenty years).

We have arranged our investment maturities in “ladder” structure so that the maturities of our bonds have a yearly basic pool of maturing funds with which to be replaced. Our Investment Committee, which consists of the Chairman of the Board, who manages the investment portfolio, the President, the Treasurer, our in-house Actuary and our Consulting Actuary and a representative of an investment firm from whom we purchase many securities, meets regularly at least every quarter and is actively engaged in making certain the cash flows arising from new business are invested in durations appropriate for the characteristics of the business being written. We have always purchased only investment grade securities and anything that we hold which had been reduced in rating has been reduced since we purchased it. We try to raise the quality of the investments while still seeking as good a yield to maturity as is safely possible.

While our Investment Policy permits the Company to hold an equity portfolio in mutual funds, the Company has not implemented that avenue of investments.

We have never made a practice of purchasing high yield or “junk” bonds. All purchases that we make are in Classes 1 or 2. However, 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 may sell a bond that is reduced a second time and probably will sell it if it is reduced two grades in the first move.

We suspended the payment of our preferred stock dividend for the fourth quarter of 2007, and do not expect to pay the dividend again for at least the first half of 2008. We have made a number of cost reductions for 2008, including salary reductions which began in the fourth quarter of 2007, and there are three staff retirements which began to occur on December 31, 2007, with others on February 29 and April 30, 2008. These positions will be filled by existing staff and additions are not contemplated. By the salary cuts, staff retirements, and other actions which we are taking, we expect to reduce our overhead by an amount equal to the annual cost of the dividend.



C. Robert Ogden
Chairman of the Board

SALES, PRODUCTS AND INTERNET DEVELOPMENT

An Overview of 2007

New nonforfeiture rate requirements and the new 2001 CSO mortality tables made 2006 a year of state filings for annuity products and term insurance products. The filings continued in 2007 with our line of traditional whole life products (WL-1, WL-1C, WL-IV and WL-GB) and currently underway, Versatile Life our interest-sensitive whole life product. Versatile Life is the last of the product filings needed to comply with the new nonforfeiture and 2001 CSO mortality tables requirements, which becomes mandatory January 1, 2009. When finished the project will have required well over 100 state filing approvals. The web marketing system designed to recruit life insurance agents to North Coast Life premiered in 2007, and recruiting results are already very positive. Development of our Internet presence continues to grow and we are in the early stages of our next development project, web marketing for life insurance and annuity sales to the general public.

The personnel structure of the Sales Department was unchanged in 2007. Gordon Eastman, Regional V.P. - Sales Southwest and Hawaii, works a full time schedule that mostly involves the recruiting and training of new agents that found us by searching the Internet. He lives in Ventura, California, just north of Los Angeles. Randy Thomas, Senior V.P. - Sales for the company, is also responsible for recruiting and training of agents in the Northwest states. Gordon and Randy frequently work together and have held several sales seminars in southern California and other areas. More seminars are planned in 2008, with the next meeting in California expected to have 50 plus agents attending.

Life insurance paid sales in 2007 increased over 2006 in volume by 28% and policy count by 8%, attributed mostly to term insurance sales, which grew more than 50%, including term insurance riders offered on our Versatile Life and Whole Life I (WL-I) permanent insurance plans. Last year we predicted an increase in term insurance sales after the introduction of lower premium rates using the 2001 CSO mortality tables in October of 2006. Life premium however, diminished 24% in 2007 mostly from lower Versatile Life sales. Although Versatile Life paid case count was only seven less when compared to 2006, there was a significant drop in Versatile Life volume (21%) and premium (43%). In an effort to turn this around, 2008 agent training seminars are planned to better educate our agents on the benefits of permanent life insurance in combination with term insurance included as a rider.

On a premium basis, the Company sales leader continues to be interest-sensitive whole life, distributed under the service-marked 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. Adding a family group rider allows coverage on all children in the family as well, so one Versatile Life policy can insure the entire family.

Since the introduction in mid-October 2006 of lower term insurance premiums using the 2001 CSO Mortality Tables, we have seen a jump in 2007 term insurance sales. Term insurance premium is up 58% on individual plans and up 72% on term riders. Term insurance face amount was up 53% on individual plans and jumped 150% on term riders. The lower rates apply to our Term-96 product line of plans, which includes Annual Renewable Term and the four different level premium plans mentioned above, that also serve as our term riders for Versatile Life and Whole Life I. Lower premium term insurance rates have allowed us to issue higher face amount plans (\$250,000 and more), which has been a market difficult for us to compete in before the new, lower rates per thousand were introduced.

The traditional Whole Life plan, WL-1, had a 9% decrease in premiums from 2006, however the other two traditional whole life plans we offer saw sizeable increases. Whole Life IV (WL-IV), a simplified issue whole life product that targets the senior market with issue ages to 85 and has a \$25,000 face amount maximum, saw a premium increase of 129%. Whole Life G.B. (WL-GB), a graded death benefit whole life product marketed to seniors through age 80, with a \$25,000 face amount maximum, saw increased premiums of 77%.

Because of new non-forfeiture rate requirements for annuity products in several states NCL is licensed, including or domicile Washington, we have a new portfolio of fixed investment deferred annuity plans, which was introduced to the agent force in June 2006. As mentioned last year, the product portfolio consists of two new single premium deferred annuities and a flexible premium deferred annuity targeting three different markets with three different policy forms. Among other reasons, annuity sales enjoyed increased sales when the interest rates on annuities were higher than CD rates. That is not the case today, and flexible premium deferred annuity sales decreased 25% from 2006, however single premium deferred annuity premium increased 47% and single premium immediate annuity premium increased substantially, from \$30,000 in 2006 to more than \$424,000 in 2007. Educating our agents on SPIAs (single premium immediate annuities) in training seminars during 2007 is the main reason for the increase.

Our current agent force is growing from our online agent recruiting efforts which began in 2007. During 2006 we recruited a total of 50 new agents and 2007 saw a total of 64 new agents being added. We anticipate that the 2008 new agent list will be substantially larger than this year's count of 64, as response to our internet advertising campaign is increasing. For several years we have strived to build a better quality agent force that yields a higher rate of persistent business. Improved persistency is evident in our agency force today and we see a trend of higher quality business from agents recruited online as compared to agents recruited in the past by direct mail.

Product Development.

We continue to upgrade our product lines with the mandatory requirements for use of new nonforfeiture rates and the Commissioners 2001 Standard Ordinary Table of Mortality. Currently we are working on Versatile Life, an interest-sensitive whole life plan first brought to market in 1982 and substantially updated in 1985. There are no changes to the current rates per thousand offered on Versatile Life, although there are some changes to the guaranteed rates per thousand. This is the last of our product filings needed to comply with the new regulations, which become mandatory January 1, 2009. So far, we have received state approvals from our domicile, Washington, and from Idaho and New Mexico. Filings for the other states we are licensed in are underway for approval in 2008.

Agent training seminars and individual meetings with our agents during 2007 have been an excellent source for information to improve current products and develop new products. We have some excellent ideas for product development and look forward to focusing on this in the later part of 2008 and 2009, once the product line upgrades and state approvals for Versatile Life are finished.

Online Technology Summary

Internet security measures are constantly monitored and improved. Primary and secondary internet providers are first channeled through a new enhanced protection firewall (from Sonicwall) which detects any intrusion attempts before access is given to our two web servers and our internal network. The Hub/Switch allows interaction between servers, the E-Series Computer, SQL Server, PDC Server, E-Mail Server and user PC workstations.

We continue to enhance our web marketing for life insurance agent recruiting, which was introduced in 2007. The marketing campaign is now in all three of the major search engines (Google, Yahoo and MSN (Microsoft)). We are on thousands of websites daily and chances are very high that any search by an agent will result in his being exposed to North Coast Life. Currently there are 420 “key word sets” within all three search engines. We are constantly positioning these to advance them into one of the top positions, such as:

<u>Number of Sites</u>	<u>Position</u>	<u>Key Word Set</u>
710,000	4	Single Premium Immediate Annuity (Yahoo)
30,800,000	4	20 Year Term Insurance (MSN)
36,500,000	2	5 Year Term Insurance (MSN)
7,250,000	1	2 Year Graded Life (MSN)
241,000,000	1	2 Year Graded Life (Yahoo)
1,860,000	1	2 Year Graded Life (Google)

(The data above is as of 1/24/2008)

Once clicked on, the prospective agent is directed to our web-site, AgentCommission.com, and to a specific web page designed to give the agent exactly what he is searching for. The web page is structured as a “one stop” approach, with product information, a downloadable product media kit, a chat function which allows for immediate interaction with the prospective agent and the home office, agent commission examples, contest information, and the ability to contract the agent online. Charged by the click, we currently average \$1,400 per month in search engine advertising expense, which is proving to be more cost effective than our former direct mail approach.

As mentioned in my opening paragraph, we are in development for our next internet marketing campaign, direct sales to the general public using the NCL web-site, InsureYourFamily.com. The structural framework to accomplish this is based on our internet agent recruiting system already in use. Development of paid keyword sets will direct insurance prospects searching the internet to a specific web page on InsureYourFamily.com, designed to provide the information they are looking for. Using real time online chat software, an in-house licensed agent can watch the prospect on our website, help them find the correct product they are looking for, determine face or deposit amount, invite them to chat, offer full product illustrations and even take an application over the internet or by phone. The in-house agent can also decide which prospects are best handled by one of our agent’s in the field and contact the agent with full details on the lead within 30 minutes. Continued follow-up with the field agent on the proposed insured’s appointment and sales progress will be checked regularly. We also plan to e-mail the proposed insured on the status of their policy application once it is received by Underwriting.

Robert J. Ogden
President

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:

The Company experienced a lower-than-normal gain from operations as well as a decline in its Surplus account during 2007. However, the decreased gain was again mitigated by a much-improved experience in sales of securities, which provided for an increase in total net income for the year.

Balance Sheet:

Capital and Surplus:

The Company's capital and surplus decreased approximately \$98,000, moving from \$5,825,954 at December 31, 2006 to \$5,727,817 at December 31, 2007. The decrease resulted from several factors, including a \$50,000 principal payment on the Company's Surplus Note, nearly \$300,000 in contributions to the Asset Valuation Reserve, and \$272,000 in preferred stock dividends paid. These declines were balanced by \$200,000 in common stock issued.

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

	2007	2006	2005	2004	2003
Capital & Surplus	\$5,727,817	\$ 5,825,954	\$ 6,150,720	\$ 6,171,449	\$ 5,727,774
Asset Valuation Reserve	874,403	582,730	472,590	656,517	148,763
Financial Reinsurance				(349,448)	(707,924)
Net Capitalization	<u>\$6,602,220</u>	<u>\$ 6,408,684</u>	<u>\$6,623,310</u>	<u>\$ 6,478,518</u>	<u>\$ 5,168,613</u>
Ratio of Net Capitalization to Total Assets	<u>5.4%</u>	<u>5.1%</u>	<u>5.2%</u>	<u>5.4%</u>	<u>5.3%</u>

The table generally demonstrates a generally static capitalization from 2003. The increase in the ratio during 2007 generally relates to the a decrease in net admitted assets due to the expiration of the surrender period on the short term single premium deferred annuity and resulting surrenders. During 2005, the Company was able to pay off all obligations under its financial reinsurance treaty, which relieved the Company of that strain on surplus. As the Company continues to rebuild its asset reserves and focus on new products and agent recruiting, we anticipate the strengthening of this ratio.

Assets:

The bond portfolio held by the Company declined during the current year by approximately \$4.4 million. This was caused by maturities and calls on securities purchased to match the cash flow needs of the Company's policy liabilities, particularly the block of short-term annuities discussed previously. The preferred stock portfolio did show an increase, as the Company took advantage of higher yields available in the preferred market.

The market value of the portfolio has declined from the prior year, primarily due to the rising interest rate environment:

	12/31/07	12/31/06	Change in Unrealized Gain/(Loss)
Bonds:			
Market value	\$ 85,912,882	\$ 89,764,713	
Carrying value	88,742,099	92,424,013	
Unrealized Gain (Loss)	(2,829,217)	(2,659,300)	(169,917)
Preferred Stocks:			
Market value	9,671,228	8,940,485	
Carrying value	11,021,282	9,085,416	
Unrealized Gain (Loss)	(1,350,054)	(144,931)	(1,205,123)
Total Unrealized Gain (Loss)	\$ (4,179,271)	\$ (2,804,231)	\$ (697,709)

With respect to the quality of the bonds and preferred stock investments, \$5.8 million, or 5.8% 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 \$2 million decrease from the prior year end. The Company continues to monitor these securities and the remainder of the portfolio carefully to reduce the exposure to credit risk.

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. In addition, the Company's total return at 5.84% is comparable to industry averages.

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.

Liabilities:

The majority of the Company's liabilities are comprised of Policy Liabilities (98%), which declined by approximately \$3.6 million, or 3%, during 2007, again due to the surrenders on the single premium deferred annuity as discussed above.

The Interest Maintenance Reserve (IMR) decreased 27% to \$759,593. The decrease resulted from approximately \$217,000 in losses on the sale of IMR-related fixed income securities (generally rated BBB- or better by Standard and Poor's).

The Company's Asset Valuation Reserve (AVR) increased from \$582,730 to \$874,403. The increase resulted from: 1) \$6,500 in realized losses on securities sold; 2) \$80,000 in unrealized gains on assets; and 3) \$232,000 in mandatory contributions. With the current composition of the portfolio, Management acknowledges that further losses may continue to hold down the reserve over the next few years. We anticipate required AVR levels between \$1,000,000 and \$1,200,000 over the next several years. Any future decline in credit quality will increase the required AVR contributions. As stated above, Management and the Investment Committee will carefully analyze all investment decisions to allow for the rebuilding of these reserves as much as possible.

The Company's Capital and Surplus stands at \$5,727,817. The Company is required to maintain \$4.8 million of Capital and Surplus in its domiciliary state of Washington. In California, where approximately 41% 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. In addition, the Company's surplus account includes a \$250,000 Surplus Note to an affiliate of the Company, which matures in early 2008.

Results of Operations:

In reviewing the Summary of Operations Statements from Annual Reports prior to 2006, it is important to note that the prior years include the effects of financial reinsurance, which was paid off at the end of 2005. Financial reinsurance cedes certain types of risk to the reinsurer, such as death claim risk, risk from policy surrenders, investment risk of the assets underlying the policies and policy-connected administrative expenses along with other types of policy related risks. Financial Reinsurance's general purpose is to protect the Company against dramatic negative experience resulting in any of the areas of reinsured risk for the entire block of policies under the treaty. As such, until 2006, several line items in the operations statement were shown net of the effect of the financial reinsurance, although the total impact on net income was only the annual fee paid to the reinsurer. Because of the difficulty of assessing the changes to individual line items in the Operations Statements with the impact of financial reinsurance included, we have redistributed the results from 2003-2005 to show the impact of financial reinsurance in one line item. Net income shown for each of these years is exactly the same as prior year reports.

Income:

The Company's gross premium income from life and annuity policies for the year ended December 31, 2007 declined from the preceding year as follows:

	<u>Year Ended December 31, 2007</u>	<u>Year Ended December 31, 2006</u>
First year life premiums	\$ 282,976	\$ 336,608
Renewal life premiums	4,810,029	4,900,466
Annuities	2,701,435	2,821,357
Accident & Health	<u>1,410</u>	<u>1,598</u>
Total gross premiums	<u>\$ 7,795,850</u>	<u>\$ 8,060,029</u>

Although first year premiums declined on the Company's Versatile Life interest sensitive product, first year premiums in the Whole Life and Term insurance plans were up substantially. Renewal premiums also declined in the Versatile Life block of business, but remained steady in other life insurance lines. Premiums on annuity policies are lower than in the prior year; however, sales of the Company's single and flexible premium deferred annuities have shown a steady increase in sales throughout the year.

The Company's net investment income decreased slightly due to the continuing effect of lower yielding securities purchased to cover the cash flow needs of our shorter-term products. However, with maturities during the current year of many of these securities, the Company was able to reinvest these funds at higher rates, and saw the return begin to increase towards the end of the year.

Amortization of the Interest Maintenance Reserve declined by approximately 51% from the prior year. This is a result of the impact of losses on sales of securities over the past several years, relating to the low interest environment.

Capital losses at \$6,500 were minimal for the year. The Company's Asset Valuation Reserve absorbed the loss and accordingly, the Company's surplus account was not directly impacted except to the extent the AVR was, and will continue to be, replenished.

Other income of approximately \$15,000 was income received under various class action lawsuits settlement on previously held securities.

Expenses:

Gross death benefits increased 15% during the year from \$1,882,144 to \$2,155,225, while the annual change in claims net of reserves and ordinary reinsurance was an increase of 8%. The general trend of death benefits remains relatively consistent over the past five-year period:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
1 st Qtr	\$ 353,015	\$ 161,128	\$ 337,945	\$ 385,368	\$ 321,675
2 nd Qtr	215,349	500,331	160,070	234,469	275,696
3 ^d Qtr	256,304	173,990	232,898	320,975	302,390
4 th Qtr	245,957	155,916	275,392	136,974	264,186
Annual Totals	1,070,625	\$ 991,365	\$ 1,006,305	\$ 1,077,786	\$ 1,163,947
% Increase (decrease)	8.0%	(1.5)%	(6.6)%	(7.4)%	XXXX

Policy benefits other than death claims increased 71.4% as follows:

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>	<u>Percent</u>
Annuity Benefits	\$ 10,169,621	\$ 3,334,432	\$ 6,835,189	205.0%
Life & Other Surrender Benefits	2,185,242	3,602,810	(1,417,568)	(39.3)%
Other Benefits	347,039	471,790	(124,751)	(26.4)%
Totals	\$ 12,701,902	\$ 7,409,032	\$ 5,292,870	71.4%

The increase in surrenders on the annuity business is due to the expiration of the surrender charge period on the large block of short-term annuities the Company sold in 2004. The Company had expected a high number of these policies to surrender during the year. The rate of surrenders on other annuity products was reasonable and consistent with the prior year. Surrenders on life insurance policies showed a marked decline from the prior year, as the Company's focus on retention and improving the quality of business sold was realized.

General expenses remained consistent with the prior year, as did taxes excluding federal income taxes, and premium loading costs.

Federal income taxes decreased from \$72,000 to \$20,000, corresponding to the decline in income. With the exhaustion of all of the Company's operating loss carryforwards during 2004, the Company became subject to both regular and Alternative Minimum Tax, and expects its tax burden to continue to increase during the next few years.

Other Matters:

Risk Based Capital:

The Company's Risk Based Capital Ratio (RBC) decreased to 407% from the prior-year ratio of 433%. 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 2007, A.M. Best Company reaffirmed the Company's Financial Strength Rating at C++, with a Stable outlook.

Robin L. Johnston
Treasurer

LOOKING AHEAD

The latest economic data implies that a recession may have started late last year. The National Bureau of Economic Research officially designates the start and end of recessions, but usually both actions are after they have already occurred. Employment growth continues to soften and the manufacturing sector, which is about 15% or 20% of the economy, is contracting. However, leading indicators continue to support a forecast of low growth this year, perhaps 1.0% to 1.5%, so the recession may be mild and fairly short.

We believe that the Federal Reserve Board will continue to cut the federal funds rate at the next few meetings of the Federal Open Market Committee, and that rate may be as low as 2% by summer. Recently there has been an indication that consumer prices have started to rise, which will present a problem for the Federal Reserve if it continues.

Factors in favor of a fairly short and shallow recession are that, for the most part, inventory levels are thin and the Fed has already pumped considerable liquidity into the economy. Global credit markets have eased considerably and the continued weakness of the American dollar should allow demand for American goods overseas to partly cushion any downturn. On the other hand, the end of the housing downturn is not yet visible.

The employment market remains mixed. While employers seem to have stopped hiring, there has been no indicated increase in unemployment, and unemployment insurance claims are well below the typical rate preceding a recession. In any event, we anticipate slower growth for at least the first half of the year.

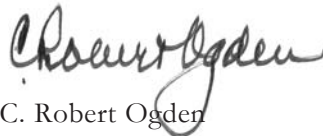
We believe that our Company may avoid much of the impact from general economic conditions so long as business holds up in the states of California, Washington and Oregon. Sales so far this year are up over last year and we are refiling our principal ordinary life product, our Versatile Life fixed-premium universal life product. Our revised term insurance products are having a beneficial sales effect. Our recruitment using the Internet is moving along very well and new agents are submitting business.

During 2008 we intend to strengthen our Company's profitability and restore the opportunity to pay the preferred dividend. We also will be rebuilding our Asset Valuation and Interest Maintenance Reserves which we have used in the past to absorb losses in our investment portfolio. As mentioned, we currently are engaged in making sure that our investments are of sustainable quality and continue to cover the margins that we need for the profitability of our interest sensitive life and annuity products.

During the year 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 the island of Saipan, which is just north of Guam.

We continue to update our Company's website at www.nclife.com. During 2008 we will continue to use the Internet both as a tool to recruit new agents and to expand our service to our agent force as well as to provide additional information to our current policyholders. We are about ready to sell certain products over the Internet to the general public, most likely term insurance products in which little estate planning is required. Regulatory requirements demand that the person in the Home Office who is engaged in selling products over the Internet be a licensed agent in the state in which the potential policyholder lives. Our Senior Vice President of Sales, Randy Thomas, is licensed in all of our states. Currently he is the one who talks to agents in the recruiting process and is able to talk with users who can "chat" by typing messages. We will train and license other members of our Home Office staff. Applications for insurance as well as the payment of premiums can be submitted over the Internet today.

2008 will be a challenging year, but we expect it to be a good one. We are confident that our investments are sound and that our revised products are both competitive and being sold by knowledgeable agents. We will be working constantly to expand our sales.

A handwritten signature in black ink, appearing to read "C. Robert Ogden". The signature is fluid and cursive, with the first name "C." and last name "Ogden" clearly visible.

C. Robert Ogden
Chairman of the Board

March 21, 2008

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

BALANCE SHEET - STATUTORY BASIS

<u>ASSETS</u>	December 31, 2007 <u>(Unaudited)</u>	December 31, 2006 <u> </u>
Ledger and Non-Ledger Assets:		
Bonds (market: \$85,117,224/\$91,722,136)	\$88,742,099	\$94,580,467
Preferred stocks: (market: \$9,671,228/\$9,367,314)	11,021,282	9,085,416
Mortgages (residential)	329,991	416,963
Real estate owned (REO)	0	0
Other invested assets	1,996,394	1,916,051
Policy loans and liens	15,467,946	14,678,127
Deposits and cash	1,735,651	1,926,454
Agents' balances and loans	26,729	22,385
Furniture, equipment and autos	66,452	78,267
Computer equipment	14,384	17,673
Premiums deferred & uncollected	1,922,838	1,996,345
Investment income due & accrued	1,507,134	1,601,541
Net deferred tax asset	2,342,921	2,408,719
Amounts receivable:		
Reinsurance	201,993	1,589
Other	57,869	471,682
Guaranty Association assessments	14,723	9,118
Total Ledger and Non-Ledger Assets	<u>125,448,406</u>	<u>\$129,210,797</u>
Non-Admitted Assets included above:		
Fixed income investments	0	0
Mortgages, REO and related	5,258	4,129
Agents' balances and loans	26,729	22,385
Furniture, equipment and autos	66,452	78,267
Deferred tax asset	<u>2,185,079</u>	<u>2,246,483</u>
Subtotal	<u>2,283,518</u>	<u>2,351,264</u>
NET ADMITTED ASSETS	<u>\$123,164,888</u>	<u>\$126,859,533</u>
<u>LIABILITIES, CAPITAL AND SURPLUS</u>		
Policy Liabilities:		
Policy reserves	\$114,597,208	\$118,453,325
Claims payable	444,840	99,298
Policy dividends & coupons	6,500	6,300
Premiums paid in advance	38,106	37,8162
Other policy liabilities	117,189	50,785
Total Policy Liabilities	<u>115,203,843</u>	<u>118,647,524</u>
General Liabilities:		
Unearned investment income	355,864	369,801
Accrued taxes	138,130	182,001
Accrued general expenses	67,838	65,401
Preferred stock dividend payable	0	90,673
Other amounts payable	37,400	57,0740
Total General Liabilities	<u>599,232</u>	<u>764,950</u>
TOTAL LIABILITIES	<u>115,803,075</u>	<u>119,412,474</u>
Asset Reserves:		
Interest Maintenance Reserve	759,593	1,038,375
Asset Valuation Reserve	874,403	582,730
Total Asset Reserves	<u>1,633,996</u>	<u>1,621,105</u>
Capital & Surplus		
Paid up capital	8,095,062	7,945,062
Unassigned surplus	<u>(2,367,245)</u>	<u>(2,119,108)</u>
Total Capital & Surplus	<u>5,727,817</u>	<u>5,825,954</u>
TOTAL LIABILITIES, CAPITAL & SURPLUS	<u>\$123,164,888</u>	<u>\$126,859,533</u>

CONDENSED SUMMARY OF OPERATIONS AND COMPARATIVE REPORT - STATUTORY BASIS
Through December 31, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
INCOME:					
Gross premium income.....	\$ 7,795,850	\$ 8,060,029	\$ 11,438,575	\$ 24,460,802	\$ 8,758,358
Less reinsurance	(289,039)	(283,923)	(681,672)	(834,802)	(289,561)
Policy dividends, coupons and supplementary contracts	108,003	0	139,121	65,000	0
Investment income & IMR, net	6,893,304	7,007,549	7,113,825	7,069,505	6,288,331
Real estate income, net	(945)	(22,879)	(23,540)	(32,528)	(36,446)
Reinsurance commissions & reserve adjustments	25,385	31,157	265,015	355,634	20,763
Other income	14,501	34,697	0	(107,187)	115,425
Total operating income	<u>14,547,059</u>	<u>14,826,631</u>	<u>18,251,325</u>	<u>30,976,424</u>	<u>14,856,870</u>
OPERATING EXPENSES & RESERVES:					
Increase in policy reserves.....	(3,676,116)	1,954,361	6,080,485	18,400,792	4,359,458
Policy dividends, coupons and supplementary contracts	106,333	111,216	142,129	106,409	98,178
Interest and adjust. on policy, deposit and other funds	226,772	328,219	215,172	161,308	160,582
Policy benefits	14,524,022	8,851,741	7,651,200	7,308,840	6,315,255
Commissions	542,186	603,937	799,123	1,267,311	701,819
General expenses	2,329,769	2,296,461	2,334,031	2,430,453	2,187,143
Taxes, licenses & fees (excluding federal income tax)	229,517	296,565	294,790	297,112	305,592
Premium loading increases/(decreases)	6,394	(15,843)	(29,176)	37,580	(76,732)
Interest on reserve deposits	0	0	0	0	1,165
Cost of financial reinsurance (net)	0	0	25,000	25,000	29,644
Total operating expenses & reserves	<u>14,288,877</u>	<u>14,426,656</u>	<u>17,512,754</u>	<u>30,034,804</u>	<u>14,082,105</u>
Net Income/(Loss) from operations before federal income taxes	258,182	399,975	738,571	941,620	774,765
Federal Income taxes incurred	<u>19,903</u>	<u>71,395</u>	<u>60,312</u>	<u>59,230</u>	<u>66,159</u>
NET GAIN/(LOSS) FROM OPERATIONS before realized capital gains/(losses) and preferred stock dividend	<u>238,279</u>	<u>328,580</u>	<u>678,259</u>	<u>882,390</u>	<u>708,606</u>
Net Realized capital gains/(losses)	(223,390)	34,014	(1,088,608)	357,863	(120,076)
Less (Gains)/losses transferred to the IMR	216,928	(167,573)	590,643	(874,455)	(133,251)
NET INCOME/(LOSS)	<u>\$ 231,817</u>	<u>\$ 195,021</u>	<u>\$ 180,294</u>	<u>\$ 365,798</u>	<u>\$ 455,280</u>
Paid ordinary sales	36,118,603	28,149,696	28,940,061	36,292,969	29,385,147
In force at end of year	460,641,312	464,581,698	483,761,201	507,598,291	527,949,274
Total admitted assets	123,164,888	126,859,533	\$ 126,258,770	\$ 119,774,058	\$ 97,668,927

SURPLUS ACCOUNT - STATUTORY BASIS

	December 31, <u>2007</u>	December 31, <u>2006</u>
CAPITAL AND SURPLUS DECEMBER 31, PREVIOUS YEAR	\$5,825,954	\$6,150,720
Gain from operations	238,279	328,579
Net Realized capital gains or (losses)	(223,390)	34,014
Less gains to Interest Maintenance Reserve	216,928	(167,573)
(Increase)/decrease in Asset Valuation Reserve	(291,673)	(110,140)
(Increase)/decrease in non-admitted mortgages and real estate	943	1,340
(Increase)/decrease in non-admitted other invested assets	(2,073)	1,256
Net (increase)/decrease in agents' balances and other non-admitted items	68,877	(138,968)
(Increase)/decrease in non-admitted deferred tax assets	(65,798)	158,124
(Increase)/decrease in net unrealized capital gains (losses)	80,344	31,301
Cumulative effect of changes in accounting principles	0	0
Dividends paid on Company preferred stock	(272,018)	(362,699)
Paydown of financial reinsurance balance	0	0
Exercise of common stock directed warrants	200,000	0
Surplus note contribution (payments)	(50,000)	100,000
Other	<u>144</u>	<u>0</u>
CAPITAL AND SURPLUS, CURRENT PERIOD	<u>\$5,727,817</u>	<u>\$5,825,954</u>



North Coast Life FORTY-THIRD ANNUAL REPORT

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