



ANNUAL REPORT TO STOCKHOLDERS FOR 2008



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

DIRECTORS

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

Nicholas R. Knapton
Douglas H. Ogden

C. Robert Ogden
Robert J. Ogden

Dean V. Ozuna
Paul S. Schultz

OFFICERS AND MANAGEMENT PERSONNEL

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

Robert J. Ogden, MBA
President
Since 1989

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

Linda E. Butler
Secretary and
Director of Stock Transfer
Since 1974

Dean V. Ozuna,
CPA, MPAcc
Treasurer
Since 2008

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

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

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

Jay W. Townsend, FLMI, ACS
Assistant Vice President
Computer Systems
Since 1985

Diana L. Buchmann, FLMI, ACS
Assistant Vice President
Policy Service and Claims
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>2008</u>	<u>2007</u>
NET GAIN FROM OPERATIONS	\$ 1,665,721	\$ 238,279
PAID NEW LIFE INSURANCE	\$ 43,162,419	\$ 36,118,603
INSURANCE IN FORCE (FACE AMOUNT)	\$ 451,770,920	\$ 460,641,312
ASSETS	\$ 121,081,112	\$ 123,164,888
ASSET RESERVES		
ASSET VALUATION RESERVE (AVR)	\$ 157,762	\$ 874,403
INTEREST MAINTENANCE RESERVE (IMR)	\$ (111,184)	\$ 759,593
STATUTORY CAPITAL AND SURPLUS	\$ 5,737,259	\$ 5,727,817
RISK BASED CAPITAL RATIO	349%	407.0%
INVESTMENT RATE OF BONDS		
AND PREFERRED STOCK	6.778%	6.61%
AVERAGE SIZE LIFE CASE	\$ 109,239	\$ 109,784
(FACE AMOUNT)		
RETURN ON EQUITY	10.9%	4.0%

Chairman's Message

C. Robert Ogden, JD

During the last four months of 2008 our Company was caught up in the turmoil in the financial markets and suffered the default of some of our securities like other insurance companies in the nation and practically the whole universe of financial enterprises. We suffered a default of the bonds of Lehman Brothers, Washington Mutual (including Nation's Bank which was merged into WaMu), and the bankruptcy of the Tribune Company of Chicago into which was merged the bonds we had in the Times Mirror newspaper of Los Angeles. We sold the Lehman Brothers bonds at a considerable loss, and we wrote down the value of the Washington Mutual and Tribune bonds, but we did not sell WaMu and Tribune. We believe that we will receive some return of capital on those bonds in the bankruptcy proceedings of each of them that will proceed over the next few years. These losses virtually wiped out our Asset Valuation Reserve and our Interest Maintenance Reserve except that we have remaining over \$157,000 in the Asset Valuation Reserve which relates to the ownership which North Coast has in the West 1124 Riverside Avenue Partnership that owns the building adjoining and connected with our Home Office building and in which we occupy some space for storage and other uses. Rebuilding these reserves will require a considerable effort in 2009 and it is very unlikely that we will be able to consider the restoration of the preferred stock dividend (which is about \$90,000 a quarter) during this calendar year.

The news, however, is not all bleak. At the end of the year we were successful in completing a reinsurance transaction (a combination of yearly renewable term and coinsurance) with Government Personnel Mutual Life Insurance Company of San Antonio, Texas, which enabled us to complete the year with a net income of \$627,681. This left us at the end of the year with a total capital and surplus of \$5,737,259, slightly higher than the capital and surplus we had at the end of 2007. This reinsurance arrangement will require the payment by us to GPM Life of reinsurance premiums. Because we used older policies in force, it will also aid us to reduce our death claim exposure.

During 2008 we also continued to revise and refile our traditional whole life products and our interest sensitive whole life products to meet the new non-forfeiture factors (which involve our reserves) and required by the National Association of Insurance Commissioners and a new 2001 Commissioner's Standard Ordinary Mortality Table which all companies were required to have in use for all of their products no later than the end of 2008. When we were finished, these revisions and filings required well over 100 state filings and obtaining the approvals of each, and it also entailed the revision of our computer systems to include the revised premiums and cash value calculations for all of these products. This was a large project.

During 2008 we also continued to revise our investment portfolio, both shortening the maturity average of the bonds which we hold and to improve their quality. The terminations of policies through surrender were higher than in the years prior to 2007 because of the surrender of policies from the large block of annuities which had short (3 year) surrender charges which we sold in 2004 and which were subject to surrender and withdrawal beginning in 2007. Some of that activity carried over into 2008 but by now has subsided almost entirely. We planned for about 80% of these annuities with three year surrender charges to withdraw by "laddering" enough of our investments that matured in 2007 and 2008 so there was a sufficient cash flow to cover withdrawals, and this was successful.

These withdrawals, however, are the principal reason that the assets of the Company declined during 2008 from \$123,164,888 to \$121,057,970 at the end of 2008. This is further reflected in the lower level of bonds and preferred stocks on our books at the end of 2008 as compared to the end of 2007.

During 2008 we paid off the remaining \$250,000 on a surplus note which was held by our parent company, R.J. Martin Mortgage Company. That is an expense which we will not face this year.

During 2008 we were able to reduce our controllable expenses, despite the fact that actuarial fees increased. These reductions will carry over into 2009 and beyond. Three of our long term employees retired and the in-house actuary whom we had hired in 2007 left the Company. We made other changes in our controllable expenses that also will carry forward.

At the end of 2008 the market value of our bonds and preferred stocks was below statement value by the largest margin we have ever had. These values reflect the fact that the Federal Reserve reduced the Federal Funds rate down to ".50 to zero", the lowest point in history, and we expect to see those values begin to be restored as the market recovers. Paid ordinary life sales in 2008 increase nearly 20% but have slipped back so far in 2009 as a result of the general economic difficulties. Our persistency improved but the ending in force was down from the end of 2007 though less than 1%. Comments about our sales appear under the heading of "Sales and Internet Development" later in this report, as do the details of our Financial Statement and Operations in the portion of this report under that heading.

In the course of developing our financial statement for the end of year, we again received studies from our consulting actuary, Anthony L. Hollobon, FSA, about mortality and termination experience and the profitability of our major product lines. I am please to tell you that Tony Hollobon gave us his opinion that the current mortality and termination experi-

ence of the Company has been reasonable and consistent and he continues to feel that the Company has the capacity to sell additional new business without a significant increase in indirect costs.

We intend to continue to hold expenses down. We have made considerable improvements in our internal systems, including our computer systems, which enable 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 for many years.

We continue to believe that our basic business is sound and we intend to work harder to make it more profitable, particularly on the investment side. While sales have declined so far this year, we will be pushing to expand them as economic conditions permit.

We look forward to the challenges of 2009.

Investments

At December 31, 2008, our bond portfolio showed a statement value of \$87,730,096 and an NAIC market value of \$69,932,263. This is the widest margin of values that we have ever experienced. Our preferred stock portfolio carried a statement value of \$9,932,079 and a market value of \$6,803,301, also the largest margin that we have ever experienced. We expect to see these margins contract as the markets begin to recover. We believe that the value of the securities which we continue to have on our books will hold up but we are watching carefully several issues about which we are concerned. Under Washington law we are permitted to have 10% of our assets in preferred stocks, and at December 31, 2008, 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 2008 was 6.778%, up from 6.613% which was the average yield we obtained in 2007. So far in 2009 we are obtaining an average yield to maturity of 7.052%. As mentioned in my "Letter" which preceded these comments on investments, the Federal Reserve has lowered the federal funds rate to the lowest level in history.

These comments are being written at the end of February in 2009. At this point some economists are projecting an economic turnaround in the second half of 2009, which we believe is probably a little too soon. The length and depth of the current downturn is unclear, and the data at this time imply that the recession will be worse than those that we have seen in the last twenty years or more. GDP has been declining and is not expected to recover until the end of 2010, although inflation is very low or negative.

The Growth Indicator which includes such leading indicators as housing permits, unemployment insurance claims, orders for capital equipment goods, orders for consumer durables and consumer expectations has continued to deteriorate. However, there is now a very considerable amount of

funds that have been committed to fiscal stimulus which should begin to turn things around by the end of the year.

The major problem was that interbank lending seized up in September of 2008 with the three month Libor spread widening 400 basis points. By now that has receded to about 100 basis points which is still elevated above the average during the '90s but a considerable improvement. As the credit crisis recedes, that spread should tighten further. The tighter spread indicates an increased willingness by banks to loan to each other and to businesses and households. The loss of jobs in 2008 has been projected at about 2.5 million with the great bulk of that in the last four months of the year alone.

In past recessions, as I understand it, housing is usually the first sector to recover. There is certainly no definite sign of that as yet. Housing prices are down substantially and affordability has reached a record high, according to the National Association of Realtors. Refinancing has risen sharply but new and existing home sales remain very weak and inventories are high. Housing starts are at a record low.

Nevertheless, real income has been rising sharply as energy prices fall while consumer confidence remains very low and a turnaround in consumer spending is not likely for the remainder of the year. Vehicle sales are very low and the automobile industry is suffering and turning to the federal government for assistance, which also includes a continuation of jobs which is important to the union movement.

The current stimulus bill which has been adopted by Congress and the budget proposed by the President will no doubt receive a fair review in Congress and may be changed as the spring progresses. The "stimulus package" envisions extremely high spending and deficits which will be difficult to overcome, especially by attempting to raise taxes at a time when the downside risk to the economy is high. The cause of the continued downward trend probably is because of the slow return to lending by the banks as they continue to write down non-performing assets. Also the global economy is in turmoil, with a prolonged period of low growth being envisioned. The probability of the downside of this scenario seems to be quite high but with all the monetary and fiscal policy stimulus in the pipeline, there could be a recovery as early as the end of this year and into 2010, which would begin to create a brighter economic outlook for financial assets.

We have been keeping a substantial cash balance on hand, not only to be able to take advantage of good high-rated bond buys in the market but also to maintain a cushion against the possible surrender of policies and withdrawals of cash values as our customer's individual needs are reflected in their actions. We have seen some increase in policy surrenders and withdrawals, but it is not affecting us in a substantial way.

I mentioned earlier that we have been attempting to shorten the maturities of bonds in our portfolio. 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 2027 (eighteen years).

We have arranged our investment maturities in a “ladder” structure so that the maturities of our bonds have a yearly basic pool of funds maturing with which to be replaced. Our Investment Committee, which consists of the Chairman of the Board who is the principal manager of the investment portfolio, the President, the Treasurer, our Consulting Actuary and a representative of an investment firm from whom we have purchased many securities, meets quarterly and is actively engaged in making certain that the cash flows arising from new business are invested in durations appropriate for the characteristics of the business we are writing. We have always purchased only investment grade securities and anything we hold which has been reduced in rating has been reduced since we purchased it. We try to raise the quality of investments while 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 line of investments.

We have never made a practice of purchasing high yield or “junk” bonds. All purchases 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 likely will sell it if it is reduced two grades in the first move.

In 2008 we kept our general expenses below 2007 and, on fact, our general expenses in 2008 were lower than those which we had in 1992. We intend to continue to be very cautious about our spending and to attempt to produce as good a year in our operations as we can do.

Looking Ahead

The economic forecasts that we are seeing reveal a good deal of uncertainty about the outlook. Earlier in this report I commented that, from what we see, we believe that it is possible for a recovery to begin toward the end of 2009 and in 2010, but there is no sign as yet of a turnaround in the data. When the economic data does start to improve, it will no doubt be mixed with some indicators up and others down. The unemployment rate is still moving up and concerns about consumer spending remain. So far as international economics is concerned, it currently appears that the euro and the pound are strengthening while the yen is weakening, which is a reversal of earlier trends. China appears to be willing to keep its exchange rate fixed to the U.S. dollar.

The Federal Reserve is likely to keep its interest rate at 0.0% to 0.50% this year unless things begin to improve substantially. The actions of the new administration and Congress in developing spending programs will definitely keep pressure on the yield from government securities which we believe will remain low even into next year. We believe that investment grade corporate bonds are the place to look at the present time,

particularly non-financial corporations. As I mentioned, we do not buy high-yield corporate bonds.

Our Company has been unable to avoid the impact of general economic conditions in the states in which we do business. Washington, Oregon, Idaho and Montana and to an extent Wyoming, have not been affected as much as the states further south such as California, Arizona, Nevada and Colorado. But two-thirds of all the people in all the western states in which we operate live in California, and that is the major market in the west and it has been greatly affected by the reduction of jobs and the depression in the housing industry.

During 2009, we intend to strengthen our Company’s profitability and rebuild as much as we can our Asset Valuation and Interest Maintenance Reserves which we used during 2008 to absorb losses in our investment portfolio.

As I mentioned early in this report, we are engaged in reviewing our entire portfolio to make 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 2009 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. Our business in Guam and the Commonwealth of the Northern Marianas, principally the island of Saipan just north of Guam, has diminished because of agency problems there. We will be looking to rebuild with other representation.

As mentioned in this report under the heading of Sales and Internet Development, we continue to update our Company’s website at www.nclife.com. We have been successful in the use of the Internet as a tool to recruit new agents and to expand our service to our agency force as well as provide additional information to current policyholders, a project which is expanding. We are nearly ready to sell products over the Internet to the general public, term insurance products in particular, in which little estate planning is required. State requirements are that a person in the Home Office who engages in selling products over the Internet has to be a licensed agent in the state in which the potential policyholder lives and we can only sell in the states in which we are admitted to do business. Our Sr. Vice President of Sales, Randy Thomas, is licensed in all of our states and he currently is the one who talks to prospective agents in the recruiting process and often talks to potential policyholders. We also are assisted by Jeff Shaver our Director of Internet Sales Programming, and his assistant, Rita Sollie, who also is licensed as an agent in all of our states. Applications for insurance as well as the premium payments can be submitted over the Internet today.

2009 will be a challenging year. We are confident that our revised products are both competitive and being sold by knowledgeable agents. We are watching our investments carefully and we are keeping a good cash balance on hand. We will be working constantly to expand and improve our sales and operations.

Sales and Internet Development

Robert J. Ogden, President

Overview of 2008

We are now finished with the state filings for new nonforfeiture rate requirements and the use of the new 2001 CSO mortality tables for all of the life and annuity products we sell. The new regulations became mandatory January 1, 2009, and required well over 100 state filing approvals. As a reminder, the web marketing system designed to recruit life insurance agents to North Coast Life premiered in 2007, and already 2008 recruiting results have brought a record number of new agents. Development of our Internet presence continues to grow and our next development project, web marketing for life insurance and annuity sales to the general public, is moving forward.

The personnel structure of the Sales Department was unchanged in 2008. 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 come to us from our internet agent recruiting system. 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 increased the number of sales seminars in southern and central California, Arizona and other areas during 2008.

Life insurance paid sales in 2008 increased over 2007 in policy count by 20%, volume by 20%, and premiums by 30%. In 2007, the growth was attributed mostly to a 50% increase in term insurance sales, which included term insurance riders offered on our Versatile Life and Whole Life I (WL-I) permanent insurance plans. For 2008, we saw wide spread growth, as all life insurance product lines increased. This can be attributed to the success of adding new agents from internet recruiting and more agent training seminars designed to better educate our agents. To help boost permanent insurance sales, agent training seminars focused on the benefits of permanent life insurance in combination with term insurance included as a rider for the family market and our simplified issue whole life plans for the senior market.

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 premiums increased 33% in 2008 over 2007 levels. 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 renewable 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 with just one policy fee.

Since the introduction in mid-October 2006 of lower term insurance premiums using the 2001 CSO Mortality Tables, we

continue to see growth in term insurance sales. The number of individual term insurance plans increased 44% in 2008 over 2007, premiums were up 30% and face amount was up 39%. Term rider counts were down 10% in 2008, however they jumped 150% in 2007, a difficult number to beat. The Term-96 product line of plans include Annual Renewable Term, and four different level premium plans mentioned above, that also serve as our term riders for Versatile Life and Whole Life I. We continue to issue higher face amount term plans (\$250,000 and more), which has been a market difficult for us to compete in before the lower premium rates were introduced.

NCL continues to do well with our three traditional Whole Life products. The WL-1 plan, had a 88% increase in premiums over 2007, and doubled in placed cases and face amount. 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 premiums at the same level as 2007, but also doubled in face amount. 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 9%.

The annuity product portfolio consists of a single premium deferred annuity, a flexible premium deferred annuity targeting three different markets with three different policy forms and an immediate annuity. We have seen flexible annuity sales decrease over the past two years as interest rates have decreased, however single premium deferred annuity premium and single premium immediate annuity premium have remained steady with 2007. We also continue educating our agents on our annuity products in training seminars.

Online Agent Recruiting Summary

For 2008, we saw a record number of newly appointed agents, which averaged over 12 per month, or 146 by year end. The total agent force grew over 50% in 2008 due to the online recruiting efforts just started in mid-year 2007. For several years we have strived to build a better quality agent force that yields a higher rate of persistent business. This has resulted in improved persistency from our agency force for several years now, and we continue to see a trend of higher quality business from agents recruited online as compared to agents recruited in the past by direct mail. However, in 2008 we saw an increase in submitted applications that resulted in not being placed and as a result, we are reviewing our new agent screening and training procedures to improve our submitted to paid business ratio.

We continue to enhance our web marketing for life insurance agent recruiting. As a reminder, NCL's target market areas to attract agents are within the states we are licensed in. Working now exclusively with the web search engine Google, we have developed over 450 paid keyword rotating sets exclusive to NCL. Our keyword advertising has increased to include the Google Content Network, placing NCL in front of thousands of agents and consumers looking specifically at professional internet sites tied to life insurance and annuities. We also have over 400 keywords in top ten positions on Google at no cost, bringing agents and consumers to our websites without advertising expense.

Examples of our "pay by click" advertising are, "Wanted: Licensed Agents," or "Are you looking for Full General Agent Commissions?" 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 perspective agent, agent commission examples, contest information, and the ability to contract the agent online. Charged by the click, we currently average \$2,200 per month in search engine advertising expense, which is proving to be much more cost effective when compared to our former direct mail expenses. Also, the advertising expense level is structured to create the optimum number of recruiting leads for our two sales vice presidents at this time.

Google also provides to us at no additional expense a "real time" internet based tracking system to report online agent leads and contact follow-ups. Once received, quality agent leads are entered in a spread sheet, and the all important initial contact is made within 30 minutes by our agency sales executives.

Online Consumer Marketing Development Summary

Our long term strategy of internet based sales growth is being developed in two phases. The first phase is our online agent recruiting system, which provides NCL with policyholders that are traditional agent/client based. The next phase, which is now under development, is an online system designed to sell NCL products directly to the general public by "in house" licensed agents. State insurance regulations require that an employee of NCL be a licensed agent in order to discuss products we sell to someone who is not a current policyholder. The in house agent must also be licensed to sell insurance products in the state the inquiring person resides in, which means the agent must be licensed in all states we sell. We now have two employees who are licensed agents in all states NCL sells in, which allows us to provide product knowledge and eventual sales to the general public via the phone or the internet from the home office.

The online marketing campaign for direct consumer sales uses the system frame work already up and running for online agent recruiting and will initially offer our term insurance plans, other products will be offered as the online system expands. Key word sets are created (over 200 at this time) for several different online advertisements on the search engine, Google. An example advertisement is, "[Buy Term Life Insurance](#), Free Term Quotes with Live Chat Available Instantly!" A consumer searching for term insurance in one of the states NCL is licensed in would have our advertisement appear on their computer screen. If they "click" on our advertisement, they are directed to our web site, www.InsureYourFamily.com. Once on our web site, the in house agent can view where they are in real time and initiate an online chat to aid in the information/sales process. Advanced sales help will include real time interaction, where the in house agent's computer screen mimics the consumer's screen, and any input or movement is shared on both screens at once. This allows the agent to provide product illustrations or even help fill out an online application, as all input by the agent or consumer will be visible on their computer screens as it happens. Also, the in house agent can set up an appointment with one of our field agents if the consumer prefers a more traditional sales approach by meeting in person.

The online marketing campaign for direct consumer sales is competitive and requires a simple yet sophisticated approach. This includes product literature that is easy to read and eye appealing. Also, Web visitors require quick response times to questions, marketing materials and detailed product illustrations. Email follow -ups to remind past visitors about current pending insurance quotes are also critical, as we believe the sales effort on average will take four follow-ups before the application process begins. We plan to introduce online direct consumer sales later this year.

Analysis of Operations and Financial Statements

Dean V. Ozuna, CPA, MPAcc, Treasurer

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

Summary:

Although the Company experienced an increase in net income from operations, the Company sustained substantial capital losses due to the economic conditions experienced in the past year. However, those losses were mitigated by a reinsurance treaty which provided for an increase in total net income for the year.

Balance Sheet:

Capital and Surplus:

The Company's capital and surplus increased approximately \$10,000, moving from \$5,727,817 at December 31, 2007 to \$5,737,246 at December 31, 2008. The decrease resulting from a \$250,000 principal payment on the Company's Surplus Note and approximately \$2,000,000 in realized and unrealized capital losses were balanced by \$275,000 in common stock issued, a \$716,000 reduction in the Asset Valuation Reserve and a \$928,000 reinsurance treaty with Government Personnel Mutual Life Insurance Company of San Antonio, Texas.

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

	2008	2007	2006	2005	2004
Capital & Surplus	\$ 5,737,259	\$ 5,727,817	\$ 5,825,954	\$ 6,150,720	\$ 6,171,449
Asset Valuation Reserve	157,762	874,403	582,730	472,590	656,517
Financial Reinsurance					(349,448)
Net Capitalization	\$ 5,895,021	\$ 6,602,220	\$ 6,408,684	\$ 6,623,310	\$ 6,478,518
Ratio of Net Capitalization to Total Assets	4.9%	5.4%	5.1%	5.2%	5.4%

The table generally demonstrates a generally static capitalization from 2004. The decrease in 2008 represents a substantial decrease in the Asset Valuation Reserve due to the downgrade of many of the Company's investments. The increase in the ratio during 2007 generally relates to the 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 \$30,000. The Company expects to increase its bond portfolio going forward as the general economic conditions improve. The preferred stock portfolio decreased approximately \$1.1 million. This was due to the selling of some preferred stock and not replacing it due to the lower yields available in the preferred market.

The market value of the portfolio has declined from the prior year, primarily due to the current decline in the overall investment market place:

	12/31/08	12/31/07	Change in Unrealized Gain/(Loss)
Bonds:			
Market value	\$ 69,982,284	\$ 85,912,882	
Carrying value	87,730,098	88,742,099	
Unrealized Gain (Loss)	(17,747,814)	(2,829,217)	(14,918,597)
Preferred Stocks:			
Market value	6,803,302	9,671,228	
Carrying value	9,932,080	11,021,282	
Unrealized Gain (Loss)	(3,128,778)	(1,350,054)	(1,778,724)
Total Unrealized Gain (Loss)	\$ (20,876,592)	\$ (4,179,271)	\$(16,697,32)

With respect to the quality of the bonds and preferred stock investments, \$7.6 million, or 7.8% 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 \$1.8 million increase 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.

Yields on the purchase of new higher-quality investments are ranging from 6.5% to 7.0%. The Company's total return for 2008 of 6.39% is comparable to industry averages.

Mortgage loans 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 (99%), which declined by approximately \$1.2 million, or 1%, during 2008, due to the surrenders on the single premium deferred annuity.

The Interest Maintenance Reserve (IMR) decreased 110.7%, from \$1,038,375 to a negative \$111,184. According to the Statement of Statutory Accounting Principles (SSAP), a negative IMR is treated as a nonadmitted asset and therefore a reduction of surplus. The decrease resulted from losses on the sale of IMR-related fixed income securities (generally rated BB- or better by Standard and Poor's). Most of these losses were related to various banking institutions which went into bankruptcy in September 2008 and were sold while there was still a market for those securities.

The Company's Asset Valuation Reserve (AVR) decreased from \$874,403 to \$157,762. The decrease resulted from: 1) \$728,833 in realized losses on securities, mainly from impairment writedown of worthless securities; 2) \$1,312,526 in unrealized losses on assets; and 3) \$952,552 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 \$5,737,529. The Company is required to maintain \$4.8 million of Capital and Surplus in its domiciliary state of Washington. In California, where approximately 43% 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.

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 2004-2005 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.

In December 2008, the Company entered into a reinsurance treaty with Government Personnel Mutual Life Insurance Company (GPM Life) of San Antonio, Texas. NCL transferred approximately \$928,000 of reinsurance reserves to GPM Life and received a ceding allowance of approximately \$913,000. These are shown as reinsurance allowances received and a change in reserves on the Statement of Operations. In future years, NCL will pay reinsurance premiums to GPM Life and receive reinsurance allowances and claim payments on the policies reinsured according to the terms of the treaty.

Income:

The Company's gross premium income from life and annuity policies for the year ended December 31, 2008 declined from the preceding year as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
First year life premiums	\$ 402,483	\$ 282,976
Renewal life premiums	4,599,676	4,810,029
Annuities	<u>2,675,344</u>	<u>2,701,435</u>
Accident & Health	1,063	1,410
Total gross premiums	<u>\$ 7,678,566</u>	<u>\$ 7,795,850</u>

First year premiums on the both Company's Versatile Life interest sensitive product and the Whole Life and Term insurance plans were up substantially. Renewal premiums declined in the Versatile Life block of business, but remained steady in other life insurance lines. Premiums on annuity policies are slightly lower than in the prior year.

The Company's net investment income increased slightly due to the continuing effect of lower yielding securities maturing and the ability of the Company to reinvest these funds at higher rates.

Amortization of the Interest Maintenance Reserve declined by approximately 74% from the prior year. This is mainly a result of the impact of losses on sales of securities during the current year relating to the current economic environment.

Capital losses at \$728,000 were substantial for the year and had a negative effect on the surplus account. The Company's Asset Valuation Reserve absorbed additional losses and accordingly, the AVR is, and will continue to be, replenished.

Other income of approximately \$50,000 was income received under various class action lawsuits settlement on previously held securities.

Expenses:

Gross death benefits increased 4% during the year from \$2,155,225 to \$2,242,690, while the annual change in claims net of reserves and ordinary reinsurance was an increase of 15.2%. The general trend of death benefits remains relatively consistent over the past five-year period:

	2008	2007	2006	2005	2004
1 st Qtr	\$ 408,822	353,015	\$ 161,128	\$ 337,945	\$ 385,368
2 nd Qtr	450,408	215,349	500,331	160,070	234,469
3 ^d Qtr	145,623	256,304	173,990	232,898	320,975
4 th Qtr	<u>257,104</u>	<u>245,957</u>	<u>155,916</u>	<u>275,392</u>	<u>136,974</u>
Annual Totals	\$ 1,261,957	\$ 1,070,625	\$ 991,365	\$1,006,305	\$1,077,786
% Increase (decrease)	15.2%	8.0%	(1.5)%	(6.6)%	XXX

Policy benefits other than death claims decreased 32.2% as follows:

	2008	2007	Increase/ (Decrease)	Percent
Annuity Benefits	\$ 5,306,522	\$10,169,621	\$(4,863,099)	(47.8)%
Life & Other Surrender Benefits	2,965,116	2,185,242	779,874	35.7%
Other Benefits	344,856	347,039	(2,183)	(0.6)%
Totals	\$ 8,616,494	\$12,701,902	\$(4,085,408)	(32.2)%

The decrease in surrenders on the annuity business is due to the expiration in 2007 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 2007. The rate of surrenders on other annuity products was reasonable and consistent with prior years. Surrenders on life insurance policies increased from the prior year, with many surrenders occurring in the last quarter of 2008 as the national economy declined.

General expenses decreased over the prior year due mainly to cost cutting measures implemented by management throughout the year.

Federal income taxes increased from \$20,000 to \$304,000, due to the increase in income from the GPM Life reinsurance treaty. With the exhaustion of all of the Company's operating loss carryforwards during 2004, the Company became subject to both the regular income and Alternative Minimum Tax. Although the Company expects an increase in its tax burden compared to prior years, the future tax burden is expected to be lower than the December 31, 2008 amount.

Other Matters:

Risk Based Capital:

The Company's Risk Based Capital Ratio (RBC) decreased to 349% from the prior-year ratio of 407%. 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 November 2008, A.M. Best Company reaffirmed the Company's Financial Strength Rating at C++, with negative implications, which was evaluated before the GPM Life reinsurance treaty in December 2008.

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

BALANCE SHEET - STATUTORY BASIS

<u>ASSETS</u>	December 31, 2008 (Unaudited)	December 31, 2007
Ledger and Non-Ledger Assets		
Bonds (market: (\$69,982,284/\$85,912,882)	\$ 87,730,096	\$ 88,742,099
Preferred stocks: (market: \$6,803,301/\$9,671,228)	9,932,079	11,021,282
Mortgages (residential)	232,951	329,9910
Real estate owned (REO)	0	0
Other invested assets	2,088,673	1,996,394
Policy loans and liens	15,457,330	15,467,946
Deposits and cash	1,964,840	1,735,651
Agents' balances and loans	42,240	26,729
Furniture, equipment and autos	0	66,452
Computer equipment	7,253	14,384
Premiums deferred & uncollected	1,907,766	1,922,838
Investment income due & accrued	1,587,574	1,507,134
Net deferred tax asset	2,672,848	2,342,921
Amounts receivable:		
Reinsurance	3,888	201,993
Other	(9,039)	57,869
Guaranty Association assessments	122,769	14,723
Total Ledger and Non-Ledger Assets	123,741,268	125,448,406
Non-Admitted Assets included above:		
Fixed income investments	0	0
Mortgages, REO and related	1,490	5,258
Agents' balances and loans	42,240	26,729
Furniture, equipment and autos	0	66,452
Interest Maintenance Reserve	111,184	0
Deferred tax asset	2,505,242	2,185,079
Subtotal	2,660,156	2,283,518
NET ADMITTED ASSETS	\$ 121,081,112	\$ 123,164,888
 <u>LIABILITIES, CAPITAL AND SURPLUS</u> 		
Policy Liabilities:		
Policy reserves	\$ 113,768,349	\$ 114,597,208
Claims payable	265,131	444,840
Policy dividends & coupons	6,500	6,500
Premiums paid in advance	46,892	38,106
Other policy liabilities	(101,245)	117,189
Total Policy Liabilities	113,985,627	115,203,843
General Liabilities:		
Unearned investment income	402,755	355,864
Accrued taxes	427,603	138,130
Accrued general expenses	100,792	67,838
Preferred stock dividend payable	0	0
Other amounts payable	269,314	37,400
Total General Liabilities	1,200,464	599,232
TOTAL LIABILITIES	115,186,091	115,803,075
Asset Reserves:		
Interest Maintenance Reserve	0	759,593
Asset Valuation Reserve	157,762	874,403
Total Asset Reserves	157,762	1,633,996
Capital & Surplus		
Paid up capital	8,119,412	8,095,062
Unassigned surplus	(2,382,153)	(2,367,245)
Total Capital & Surplus	5,737,259	5,727,817
TOTAL LIABILITIES, CAPITAL & SURPLUS	\$ 121,081,112	\$ 123,164,888

NORTH COAST LIFE INSURANCE COMPANY
Spokane, Washington

CONDENSED SUMMARY OF OPERATIONS AND COMPARATIVE REPORT - STATUTORY BASIS
December 31, 2008

	2008	2007	2006	2005	2004
INCOME:					
Gross premium income	\$ 7,678,566	\$ 7,795,850	\$ 8,060,029	\$ 11,438,575	\$ 24,460,802
Less reinsurance	(1,197,835)	(289,039)	(283,923)	(681,672)	(834,802)
Policy dividends, coupons and supplementary contracts	375,844	108,003	0	139,121	65,000
Investment income & IMR, net	7,233,607	6,893,304	7,007,549	7,113,825	7,069,505
Real estate income, net	(4,375)	(945)	(22,879)	(23,540)	(32,528)
Reinsurance commissions & reserve adjustments	931,999	25,385	31,157	265,015	355,634
Other income	50,142	14,501	34,697	0	(107,187)
Total operating income	15,067,948	14,547,059	14,826,631	18,251,325	30,976,424
OPERATING EXPENSES & RESERVES:					
Increases in policy reserves	(589,512)	(3,676,116)	1,954,361	6,080,485	18,400,792
Policy dividends, coupons and supplementary contracts	127,791	106,333	111,216	142,129	106,409
Interest and adjust. on policy, deposit and other funds	210,826	226,772	328,219	215,172	161,308
Policy benefits	10,522,206	14,524,022	8,851,741	7,651,200	7,308,840
Commissions	556,776	542,186	603,937	799,123	1,267,311
General expenses	2,274,048	2,329,769	2,296,461	2,334,031	2,430,453
Taxes, licenses & fees (excluding federal income tax)	278,350	229,517	296,565	294,790	297,112
Premium loading increases/(decreases)	26,296	6,394	(15,843)	(29,176)	37,580
Interest on reserve deposits	0	0	0	0	0
Cost of financial reinsurance (net)	0	0	0	25,000	25,000
Total operating expenses & reserves	13,406,781	14,288,877	14,426,656	17,512,754	30,034,804
Net Income/(Loss) from operations before federal income taxes	1,661,167	258,182	399,975	738,571	941,620
Federal Income taxes incurred	304,658	19,903	71,395	60,312	59,230
NET GAIN/(LOSS) FROM OPERATIONS before realized capital gains/(losses) and preferred stock dividend	1,356,509	238,279	328,580	678,259	882,390
Net Realized capital gains/(losses)	(1,583,421)	(223,390)	34,014	(1,088,608)	357,863
Less (Gains)/losses transferred to the IMR	854,593	216,928	(167,573)	590,643	(874,455)
NET INCOME/(LOSS)	\$ 627,681	\$ 231,817	\$ 195,021	\$ 180,294	\$ 365,798
Paid ordinary sales	43,162,419	36,118,603	28,149,696	28,940,061	36,292,969
In force at end of year	451,770,920	460,641,312	464,581,698	483,761,201	507,598,291
Total admitted assets	121,057,970	123,164,888	126,859,533	\$126,258,770	\$119,774,058

SURPLUS ACCOUNT - STATUTORY BASIS

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
CAPITAL AND SURPLUS DECEMBER 31, PREVIOUS YEAR	\$5,727,817	\$5,825,954
Gain from operations	1,356,509	238,279
Net Realized capital gains or (losses)	(1,583,421)	(223,390)
Less gains to Interest Maintenance Reserve	854,593	216,928
(Increase)/decrease in Asset Valuation Reserve	716,641	(291,673)
(Increase)/decrease in non-admitted mortgages and real estate	1,045	943
(Increase)/decrease in non-admitted other invested assets	2,723	(2,073)
Net (increase)/decrease in agents' balances and other non-admitted items	(380,399)	68,877
(Increase)/decrease in non-admitted deferred tax assets	329,927	(65,798)
(Increase)/decrease in net unrealized capital gains (losses)	(1,312,526)	80,344
Cumulative effect of changes in accounting principles	0	0
Dividends paid on Company preferred stock	0	(272,018)
Paydown of financial reinsurance balance	0	0
Exercise of common stock directed warrants	274,350	200,000
Surplus note contribution (payments)	(250,000)	(50,000)
Other	<u>0</u>	<u>1,444</u>
CAPITAL AND SURPLUS, CURRENT PERIOD	<u>\$5,737,259</u>	<u>\$5,727,817</u>

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North Coast Life FORTY-FOURTH ANNUAL REPORT

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