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North Coast Life Insurance Company (NAIC #67059)
Management's Discussion and Analysis - 2008
NAIC Group Code: 000 NAIC Company Code: 67059

This discussion and analysis provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for the North Coast Life Insurance Company. Information presented in this discussion supplements the financial statements, exhibits and schedules in the 2008 Annual Statement.

Financial Position

Assets:	12/31/08	12/31/07
Bonds	$ 87,680,095	$ 87,999,359
Preferred Stock	9,932,079	11,021,282
Mortgage Loans on Real Estate	231,461	327,456
Other Invested Assets	2,088,673	1,996,394
Policy Loans	15,457,330	15,467,946
Cash and Short-term Investments	2,014,839	2,478,390
Other Assets	3,676,634	3,874,061
Total Assets	$ 121,081,111	$ 123,164,888
Liabilities:		
Policy Reserves	$ 109,215,236	$ 109,804,748
Premium Deposit Fund & Other Deposit-Type Contracts	4,553,113	4,792,460
Other Policy Liabilities	206,511	571,017
Other Liabilities	1,101,230	634,850
Interest Maintenance Reserve	0	759,593
Asset Valuation Reserve	157,762	874,403
Total Liabilities	115,343,853	117,437,071
Total Capital & Surplus	5,737,259	5,727,817
Total Liabilities, Capital & Surplus	$ 121,081,111	$ 123,164,888

Summary

The financial position of North Coast Life Insurance Company (the Company) declined somewhat as assets and liabilities decreased and capital and surplus remained consistent with the prior year. The decrease in assets and liabilities resulted from a decline in investments and a reduction in both the Interest Maintenance Reserve and the Asset Valuation Reserve due to losses incurred on the disposal of securities with substantial ratings drop during the third quarter of 2008.

Assets

The total carrying value of the investment portfolio declined by approximately $1.9 million, caused by maturities and redemptions on securities purchased to match the cash flow needs of the Company's policy liabilities, including the last of a block of short-term annuities with surrender charges which expired during 2008. The market value of the portfolio has continued to decline as the markets continue to remain unstable. Although the Company has continued to place an emphasis on improving the quality of securities in the portfolio, the unprecedented decline in market conditions during 2008 has increased the total amount of below grade investments by $1.8 million, for a year end total of $7.6. The Company continues its diligent efforts to monitor these securities as well as the entire portfolio for compliance with its Investment Policy and in order reduce the exposure to credit risk.

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.

Other Invested Assets of the Company increased slightly, and consists of an approximate 81% interest in "West 1124 Riverside Partners", a general partnership owning the Company's corporate headquarters. Small increases in this investment will continue to occur in future periods as unrealized gains from the partnership are capitalized into the cost basis.

Policy Loans showed a slight decrease of approximately $11,000 during 2008. This ongoing balance appears reasonable based upon the continued maturing of policies in-force and the rate of interest charged by the Company. The Company generally charges the policies' credited rate plus 1%; this translated to a 6.00% with respect to the Company's predominant VIP (Versatile Life Products) policies. The 6.00% rate is lower than the yields presently available to the Company through its usual fixed income investments and therefore may negatively impact the investment return otherwise available to the Company on the loaned amounts. Nevertheless, policy loans are generally risk-free, thereby mitigating the lower rate of return. Accordingly, management does not view with concern the current level of loans outstanding.

The balance of Cash and Short-Term Investments declined by approximately $460,000 from the prior year, primarily due to the maturity of short-term investments purchased to cover any potential cash needs for the year. At $1.9 million, the Company continues to experience much higher levels of cash balances due to the Company's emphasis on finding higher quality investments. The Company has a $500,000 bank line of credit which expires November 30, 2009.

Liabilities

The majority of the Company's liabilities are comprised of Policy Liabilities (98%). These policy liabilities declined by approximately $1.9 million, or 1.7%, during 2008. This can be attributed mainly to the increase in death claims from the prior year and the last of a group of short-term annuities reached the end of the surrender charge period, and were surrendered.

The Interest Maintenance Reserve (IMR) decreased 110.7%, from $759,593 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 BBB- 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.

At this level, Management realizes that the IMR may not be adequate to account for the potential interest rate risk associated with the Company's bond and preferred stock investments. The Company's Management and Investment Committee intend to continue to carefully evaluate the Company's portfolio and sales decisions to increase the IMR.

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.

Capital and Surplus

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 42% 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

	12/31/08	12/31/07
Income:		
Net Premiums & Annuity Considerations	$ 6,480,731	$ 7,506,811
Considerations for Supplementary Contracts with Life Contingencies	375,844	108,003
Net Investment Income & IMR Amortization	7,229,232	6,892,359
Realized Capital Gains/(Losses)	(728,828)	(6,462)
Other Income	982,141	39,886
Subtotal Income	14,339,120	14,540,597
Expenses:		

Benefit Payments Incurred	10,860,823	14,857,127
Increase/(Decrease) in Policy and Contract Reserves	(589,512)	(3,676,116)
Commissions	556,776	542,186
Increase / (Decrease) in Premium Loading	26,296	6,394
Operating Costs	2,552,398	2,559,286
Federal Income Tax	304,698	19,903
Subtotal Expenses	13,711,479	14,308,780
Net Income /(Loss)	$ 627,681	$ 231,817

Income

The Company's gross premium income from life and annuity policies for the year ended December 31, 2008 declined approximately 13.7% from the prior year. 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.

In December 2008, the Company entered into a reinsurance treaty with Government Personal 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 allowances 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. Approximately $928,000 of the decline in premium income attributed to this reinsurance treaty.

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 consists mainly of approximately $913, 000 in the change in reserves from the GPM Life reinsurance and approximately $50,000 of 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-years.

The decrease 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 prior years. 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.

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.

Material Changes

None to report.

Liquidity, Asset/Liability Matching and Capital Resources

The Company maintained a strong liquidity position with approximately $2.0 million and $2.5 million invested in cash and short-term investments as of December 31, 2008 and 2007, respectively. In addition, $12.9 million or 14.8% of the Company's total long-term bonds matures within the next five years. The Company has a $500,000 bank line of credit which expires November 30, 2009, with no amounts outstanding as of December 31, 2008.

The Company has no material commitments for capital expenditures.

The Company's primary sources of cash are premiums, investment income and investment sales and maturities. The primary uses of cash are for investment purchases, surrenders and payment of losses, operational expenses, and dividends paid to stockholders.

The Company retains as its "Appointed Actuary": Anthony L. Hollobon, Inc., Consulting Actuary to perform year round cash flow testing (in addition to providing the Company's year-end Statement of Actuarial Opinion). For 2008, the standard seven scenarios were tested over 10, 20 and 30-year periods. Positive Base Case Ending Statutory Surplus resulted for all scenarios for and for all periods.

Off Balance Sheet Arrangements

None to report.

Participation in High Yield Financings, Highly Leveraged Transactions, or Non-Investment Grade Loans and Investments

As stated above, currently $7.6 million, or 7.8%, of the Company's investment portfolio consists of investments rated "below-investment grade". In accordance with the Company's Investment Policy, all investment purchases must be investment-grade; as such, all of the currently held below-investment grade securities have resulted from an erosion of credit quality in the securities after purchase.

Preliminary Merger/Acquisition Negotiations

None to report.

Other Matters

Company Preferred Stock

The Company has outstanding 343,690 shares of 10% Series A Cumulative Convertible Preferred Stock, $1.00 par value. The stock has been convertible at the option of the holder into common stock, $3.50 par value of the Company at any time since September 1, 1995, (unless previously redeemed). The initial rate of 1.4 shares of common stock for each share of preferred stock was increased to 2.0 shares of common stock at a special meeting of the Board of Directors on December 17, 2007. The preferred stock is redeemable at par, in whole or in part, at the option of the Company. Dividends are payable quarterly if and when declared by the Board of Directors. The preferred stock has a liquidation preference of $10.00 per share plus accrued and unpaid dividends.

Due to the weakening of the Company's income and surplus levels, the Company's Board of Directors voted on December 17, 2007, to suspend indefinitely the quarterly dividend on its 10% Series A Cumulative Preferred Stock. The suspension commenced with the dividend payable for the fourth quarter of 2007.

The preferred stock is available for quotation on the Over-The-Counter Bulletin Board (OTCBB; //www.otcbb.com)) under the ticker symbol NCLIP.