

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
NORTH COAST LIFE INSURANCE COMPANY
SPOKANE, WASHINGTON

NAIC CODE 67059
December 31, 2009

Participating States:
Washington

Order No. 11-108
North Coast Life Insurance Company
Exhibit A

SALUTATION

Seattle, Washington

May 24, 2011

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

The Honorable Joseph Torti, III
Chair, NAIC Financial Condition (E) Committee
Superintendent
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, RI 02920

The Honorable Monica J. Lindeen
Secretary, NAIC Western Zone
Commissioner
Montana Office of the Commissioner of Securities and Insurance
840 Helena Avenue
Helena, MT 59601

Dear Commissioners and Superintendent:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

North Coast Life Insurance Company
of
Spokane, Washington

hereinafter referred to as "NCLIC," or the "Company" at its home office located at 1116 West Riverside Avenue, Spokane, WA 99201. This report is respectfully submitted showing the condition of the Company as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of North Coast Life Insurance Company of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

5-24-11
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on April 19, 2011.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountants' (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2009 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2009 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The results of the examination disclosed several instances in which the Company's filing of the 2009 NAIC Annual Statement did not conform to the AP&P and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary.

- a. Liabilities, Surplus and Other Funds** – The Company reported all reinsurance balance sheet accounts for its contract with Government Personnel Mutual Insurance Company (GPM) on page, 3, line 19, Remittances and items not allocated. SSAP 61 requires the ceding entity to report each reinsurance account on the proper reinsurance line items.
- b. Liabilities, Surplus and Other Funds** – The Company classified premiums that were collected for due dates that were after the valuation date but that were for the policyholders' current policy period as advance premiums. Premiums received by the Company that are due in the current policy period do

not meet the definition of advanced premiums. SSAP 51, paragraph 23, requires the deferred premium asset to be reduced by the amount of deferred premiums that have actually been collected.

- c. **Assets** – The Company misclassified proceeds receivable from bond sales on page 2, line 5, Cash, cash equivalents and short-term investments. The NAIC Annual Statement Instructions require these to be reported on page 2, line 8, receivable for securities.
- d. **Notes to Financial Statements, No. 30** – The Company responded in the Notes to Financial Statements No. 30 that it did not have any policies for which gross premiums were less than net premiums. The Company had \$25,000 in gross premiums that were less than the net.
- e. **Schedule D, Part 1, and Schedule D, Summary by Country** – The Company reported several bond investments as U.S. Government Issues when they should have been reported as Unaffiliated Industrial and Miscellaneous bonds. In addition, the Company misclassified its foreign securities as U.S. Government and failed to report the foreign code in column 4 .
- f. **Liabilities, Surplus and Other Funds** – The Company misclassified death claims payable to minors on page 3, line 19, Remittances and items not allocated. These balances should be accounted for as claim liabilities and reported on page 3, line 4.1.
- g. **Liabilities, Surplus and Other Funds** – The Company reduced its claim liability by \$50,000 for reinsurance on a denied claim when the claim was not included in the liability.

The Company is instructed to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC, RCW 48.05.073 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

2. Intercompany Transactions

On July 1, 2009, the Company terminated all intercompany agreements. The results of the examination disclosed that NCLIC still performed services or shared costs with an affiliate. SSAP 96, paragraph 2, requires that: "Transactions between related parties must be in the form of a written agreement." In addition, RCW 48.31B.030(1)(b) requires cost sharing and management service agreements to be filed with the OIC prior to entering into the transaction.

The Company is instructed to comply with RCW 48.05.073 and WAC 284-07-050(2) which require adherence to the AP&P, by executing written agreements for all transactions between related parties, and with RCW 48.31B.030(1)(b) by filing those agreements with the OIC prior to entering into the transaction.

3. U.S. Bank Custodial Agreement

The Company responded in its 2009 NAIC Annual Statement, General Interrogatories 26.01, that its custodial agreement with U.S. Bank complied with the FCEH. However, it did not contain several provisions required by the FCEH.

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required under WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

4. Investment in 1124 W. Riverside Partnership

The Company reported in Note No. 10(k) to the Notes to Financial Statements of its 2009 NAIC Annual Statement that the financial statements for the investment in 1124 W. Riverside Partnership were not audited and the Company valued the investment based on unaudited General Accepted Accounting Principles (GAAP) equity. SSAP 48, paragraph 7, and SSAP 97, paragraph 8(b)(iii), require that investments in noninsurance subsidiaries and affiliated entities be reported based on the audited GAAP equity of the investee.

The Company is instructed to comply with RCW 48.05.073 and WAC 284-07-050(2) which require the NAIC Annual Statement to be prepared in accordance with the AP&P and the NAIC Annual Statement Instructions.

5. Capital and Surplus

The Company amended its Articles of Incorporation on October 23, 2009 to change the par value of its common stock from \$3.50 per share to \$3.01 per share. However, the Company did not report this change in its 2009 NAIC Annual Statement and continued to report the par value of common stock at \$3.50 per share. WAC 284-07-050(2) requires adherence to NAIC Annual Statement Instructions, which require the amount reported as capital on page 3, line 29 equal the par value per share multiplied by the number of shares issued. This is reclassified in the examination report as a reduction to page 3, line 29, Capital Stock and an increase to page 3, line 33, Gross Paid In and Contributed Surplus in the amount of \$348,872.

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions.

6. Board of Directors (BOD)

The Company amended its by-laws in 2006 to change the number of directors from twelve to ten. The Company had nine members on the BOD from 2006-2009. RCW 23B.08.030 requires the BOD to consist of the number of directors specified or fixed in accordance with the bylaws.

The Company is instructed to comply with RCW 23B.08.030 and its bylaws by appointing the minimum number of directors specified in its bylaws.

7. Mortgage Loans

Documents for property taxes and insurance for several mortgage loans were not monitored to ensure that insurance and taxes were current. RCW 48.13.140(2) requires buildings and other improvements on mortgaged premises to be insured against loss or damage from fire in an amount not less than the unpaid balance of the obligation or the insurable value of the property, whichever is lesser. Additionally, RCW 48.13.110(1)(a) only allows investments in mortgage loans that are secured by unencumbered property.

The Company is instructed to comply with RCW 48.13.140(2) and RCW 48.13.110(1)(a) by ensuring that investments in properties secured by mortgage loans are adequately insured and are unencumbered by delinquent property taxes.

8. Statement of Actuarial Opinion, X-Factor Opinion, and Actuarial Report

The following discrepancies were noted in the Company's Statement of Actuarial Opinion (Opinion), X-Factor Opinion, and Actuarial Report (Report):

- a. The X-Factor Opinion did not include all policies subject to the regulation. WAC 284-74-340(3)(i)(ii) requires a report meeting the requirements of the Actuarial Standards of Practice (ASOP) No. 40. ASOP No. 40 (4.1.2.b) requires that the report identify all of the specific plans of insurance for which the Company has elected to apply select mortality factors.
- b. The X-Factor Opinion failed to disclose the lowest X factor used for any policy on the valuation date as required by WAC 284-74-340(3)(i)(ii).
- c. There was no statement of compliance in the X-Factor Opinion as required by WAC 284-74-340(3)(i)(ii).
- d. There was no information included in the report regarding exposure, claims or credibility. ASOP No. 40 (4.1.2.c.1) requires the report to describe the company's experience studies used as a basis for determining anticipated mortality, including a summary of the findings and results.
- e. There was no analysis of credibility in the Report. ASOP No. 40 (4.1.2.c.2) requires the Report to describe the analysis performed to evaluate the credibility of relevant, historical company experience when establishing anticipated mortality for each X-factor class, including a description of related experience or a statement that professional judgment had been used. The appointed actuary's statement "based on my professional judgment, the X-factors used in the valuation and supported by Company experience are reasonable for the calculation of deficiency reserves" does not meet this requirement.
- f. The appointed actuary relied on mortality studies prepared by the previous actuary without proper disclosure. ASOP No. 40 (4.3) requires the appointed actuary to disclose in the opinion any reliance on data supplied by other persons.
- g. The Opinion limits its use to only the Company management and regulators of the states in which the Opinion is filed. RCW 48.74.025(1) and WAC 284-07-380(4) require the Company to submit an Opinion of a qualified actuary regarding its reserves, which is a public document.

The Company is instructed to comply with RCW 48.74.025(1), WAC 284-07-380(4) and WAC 284-74-340 as well as ASOP 40 when preparing the Actuarial Opinion, Actuarial Report and X-Factor Opinion.

9. Actuarial Memorandum

The Company's 2009 Actuarial Memorandum projected the cash flows from additional assets that should not have been used in the support of the tested reserves. ASOP No. 22 (3.3.1) and WAC 284-07-400(2) require the actuary to analyze only those assets held in support of the reserves which are the subject for specific analysis, or meet additional testing requirements.

The Company is instructed to comply with WAC 284-07-400(2) and ASOP No. 22 by only analyzing assets held in support of the reserves in its cash flow projection.

10. Deferred Annuities

- a. In the calculation of reserves for deferred annuities the Company failed to consider penalty free withdrawals on the valuation date followed by a full surrender on the anniversary date. This sometimes produced a benefit stream with a greater present value than the full surrender on the valuation date, in violation of RCW 48.74.040(2).
- b. The Company is holding some contracts in which the present value of the guaranteed annuity benefits exceed the cash value, in violation of RCW 48.74.040(2).

RCW 48.74.040(2) requires reserves according to the commissioner's annuity reserve method for benefits under annuity contracts to be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract, that become payable prior to the end of such respective contract year.

The Company is instructed to compute its reserves for deferred annuities in accordance with RCW 48.74.040(2).

11. Universal Life Policies

- a. The Company did not use the most conservative mortality tables and interest assumptions in the calculation of reserves for its universal life products. Per RCW 48.74.050(1) and WAC 284-84-050(1), reserves for universal life policies must be based on the most conservative of the mortality tables and interest assumptions used in calculating guaranteed cash values.
- b. The Company's universal life reserves are based on an expense allowance not meeting the requirements defined in RCW 48.74.040(1) and Actuarial Guideline XXI.
- c. For the policies subject to surrender charges (issued 1995 and later), the Company's reserves are based on amortizing the expense allowance over a longer period than allowed under WAC 284-84-050 for prefunding guaranteed policy values.
- d. The Company does not maintain a reserve for immediate payment of claims on its interest sensitive products. The Company could not produce a demonstration of compliance with minimum statutory formula reserves adjusted in accordance with Actuarial Guideline XXXII(II) as required by Actuarial Guideline XXXII(IV). RCW 48.05.073 requires adherence to the AP&P which includes the Actuarial Guidelines.

The Company is instructed to calculate its universal life reserves and reserves for the immediate payment of claims in accordance with RCW 48.74.050(1), RCW 48.05.073, WAC 284-84-050, RCW 48.74.040, and Actuarial Guidelines XXI and XXXII.

12. Actuarial Analysis Accounts and Records

The Company had several discrepancies and errors in reports generated for use in the actuarial analysis. These included inconsistencies in the issue date, issue age, premium, and death benefit fields. In addition, there are blocks of business for which the Company used male mortality rates for the reserves on policies that should have used female mortality rates, and vice-versa, and reserves for some policies were calculated at different interest rates than what was reported by the Company.

The Company is instructed to comply with RCW 48.05.280 by keeping full and adequate accounts and records of its assets, obligations, transactions, and affairs.

COMMENTS AND RECOMMENDATIONS

1. Business Continuity Plan

The Company does not have a formal, written, business contingency plan that addresses the continuation of all significant business activities, as recommended by NAIC Guidelines. The prior examination report included a recommendation for the Company to implement a business contingency plan.

It is recommended that the Company comply with NAIC Guidelines and implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event normal business activities are disrupted. Effective January 1, 2011, the Company will be required by RCW 48.07.160-205 to create and maintain a business contingency plan.

2. Reconciliation of Investment Accounts

The Company's control over investment reconciliations is only designed to identify discrepancies with transactions dated during the reconciliation period, and would not necessarily detect all errors. The control should be strengthened so that it includes reconciliation of the Company's investment holdings, as of a specific date, to the custodian's records.

It is recommended that the Company strengthen its control over investment reconciliations by reconciling the Company's investment holdings, as of a specific date, to the custodian's records.

3. Directors' and Officers' Liability Insurance

The Company does not have directors' and officers' liability insurance.

It is recommended that the Company obtain directors' and officers' liability coverage to protect the Company's assets and its policyholders.

4. Controls over Financial Statement Preparation and Analysis

There were inadequate controls over financial statement preparation and analysis that resulted in numerous undetected annual statement errors, an error in calculating the mandatory AVR contribution, missing disclosures in the Notes to Financial Statements and related schedules, missing adjustments relating to the change in the par value of common stock, and improper calculation of the gross deferred tax asset and the nonadmitted deferred tax asset. The Company's independent CPA firm identified these deficiencies as "material weaknesses."

It is recommended that the Company enhance its controls over financial statement preparation and analysis.

COMPANY PROFILE

Company History

The Company was incorporated under the laws of the state of Washington on February 5, 1965, as a stock life insurance company and commenced business on May 3, 1965. Since incorporation, the Company has acquired or merged business from a number of insurance companies.

Capitalization

At the end of 2009, there were 174 common shareholders owning 736,983 shares with a par value of \$3.01 each, giving a total par value of \$2,218,319. There were 138 preferred shareholders owning 360,790 outstanding shares with a par value of \$1 each and a total outstanding par value of \$360,790. There was also paid-in surplus of \$5,790,303. Unassigned surplus was a deficit of \$2,830,608, resulting in a total capitalization of \$5,538,804.

Territory

The Company markets interest-sensitive whole life, term, and flexible premium deferred annuity contracts in 12 states, Guam and the Commonwealth of the Northern Marianas. The majority of the Company's business is generated in California, Washington, and Arizona. NCLIC is represented by a field force of approximately 314 independent agents all of whom hold non-exclusive contracts.

Growth of Company

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

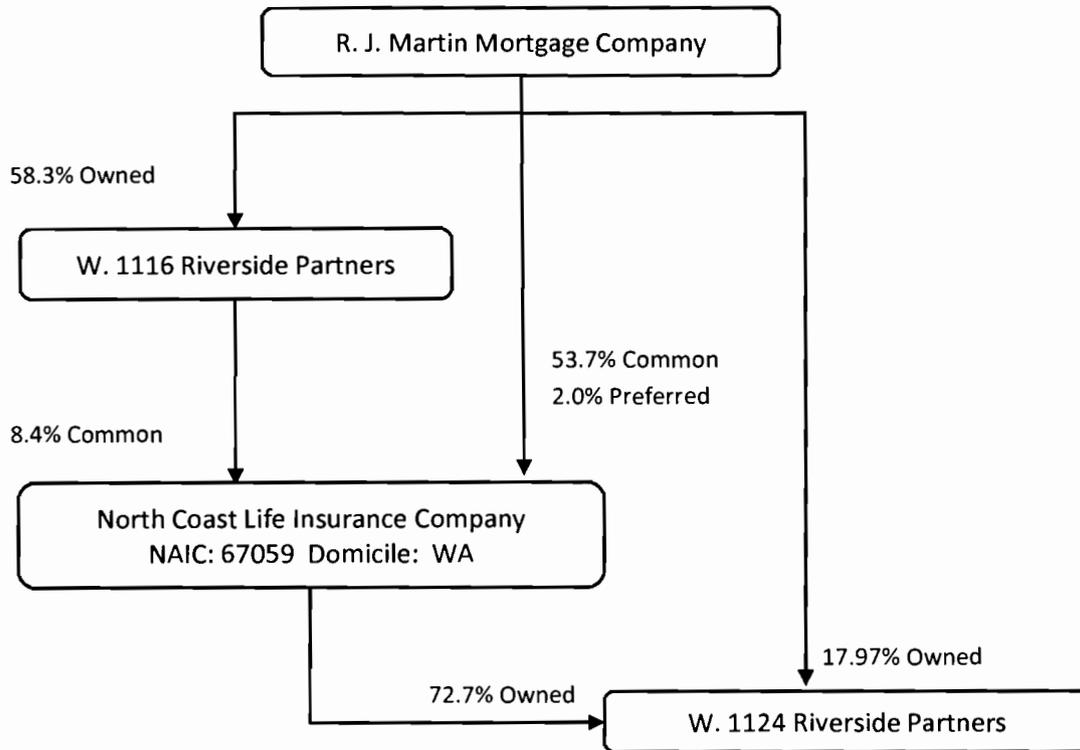
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2009	\$124,664,967	\$119,126,163	\$5,538,804
2008	121,081,111	115,343,853	5,737,258
2007	123,164,888	117,437,071	5,727,817
2006	126,859,532	121,033,580	5,825,952
2005	126,258,770	120,108,050	6,150,720

<u>Year</u>	<u>Premiums</u>	<u>Total Contract Benefits - Life</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2009	\$7,974,727	\$8,899,428	\$7,197,633	(\$1,702,297)
2008	6,480,730	10,520,648	7,213,048	627,681
2007	7,506,813	14,522,655	6,830,505	231,817
2006	7,776,107	8,848,771	6,857,544	195,020
2005	9,741,998	5,479,398	6,947,437	180,293

Affiliated Companies

The Company has both common and preferred shareholders. Approximately 53 percent of its common stock is owned by R.J. Martin Mortgage Company (RJM). RJM is controlled by the Ogden family and C. Robert Ogden is the ultimate controlling person. In addition, approximately 18 percent of the Company's common stock is directly owned by members of the Ogden family.

The following is an organization chart as of December 31, 2009:



R.J. Martin Mortgage Company

R. J. Martin Mortgage Company is a closely-held mortgage finance and servicing company. RJM is controlled by C. Robert Ogden, Chairman of the BOD for NCLIC.

West 1116 Riverside Avenue Partners

West 1116 Riverside Avenue Partnership was formed in 1989 by NCLIC, RJM, and C. Robert Ogden and Margaret M. Ogden, to purchase the Company's home office.

West 1124 Riverside Avenue Partners

West 1124 Riverside Avenue Partnership, a real estate management partnership, was formed in 1992 to purchase the commercial office building adjacent to NCLIC's home office building. C. Robert Ogden is the managing partner of West 1124 Riverside Avenue Partners.

Intercompany Agreements

Effective July 1, 2009, the Company terminated all intercompany agreements. (See Instruction No. 2.)

MANAGEMENT AND CONTROL

Board of Directors

Directors as of December 31, 2009:

C. Robert Ogden, Chairman of the Board
Ronald D. Andrews
Gavin J. Cooley
William C. Fix
Nicholas R. Knapton
Robert J. Ogden
Douglas H. Ogden
Dean V. Ozuna
Paul S. Schultz

Officers

Officers as of December 31, 2009:

Robert J. Ogden, President
Linda E. Butler, Secretary
Dean V. Ozuna, Treasurer

Conflict of Interest

The Company has a formal conflict of interest policy. All directors, officers and key employees are required to fill out and sign a conflict of interest questionnaire, annually. These are reviewed by the President and the Chairman of the Board for any irregularities.

Fidelity Bond and Other Insurance

The Company uses a broker to monitor its insurance needs and to obtain the necessary coverages. Our examination noted the Company does not have the NAIC recommended directors' and officers' liability insurance. (See Comment and Recommendation No. 3.)

Officers', Employees', and Agents' Welfare and Pension Plans

The Company maintains an Internal Revenue Code Section 401k Retirement Plan. Under the plan, the Company annually matches employee contributions. The Company matches the first \$600 employee contribution at 100 percent and the next \$600 employee contribution at 50 percent, for a maximum annual contribution of \$900.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All Board of Directors (BOD) meetings were conducted with a quorum present. The minutes of the meetings of directors and committees adequately document appropriate approvals and support the Company's transactions and events. The Company amended its Articles of Incorporation on October 23, 2009 to change the par value of its common stock from \$3.50 per share to \$3.01 per share. (See Instruction No. 5.) The Company's by-laws were amended on June 5, 2006 to change the number of directors from twelve to ten. (See Instruction No. 6.)

MORTALITY AND LOSS

The general examination emphasis was to review the methods, assumptions or other bases used to determine the actuarial items reported on the NAIC Annual Statement, and to determine whether the reported amounts complied with Washington State law and applicable Actuarial Guidelines.

The OIC actuary performed such testing of the Company's reserving methodologies and philosophies as was deemed necessary to come to a conclusion with respect to the methods and assumptions used. NCLIC provided copies of its actuarial workpapers and reserve reports as of December 31, 2009. Several tests were performed on the underlying data, methods, and calculations as deemed necessary. In addition, valuation reports and procedures were tested to establish that accurate and complete in-force information as of December 31, 2009 was represented in the valuation reports and workpapers.

Several discrepancies and inconsistencies were noted and commented upon in the examination report instructions. (See Instructions No. 8, 9, 10, 11, and 12.)

REINSURANCE

NCLIC entered into one new ceded reinsurance agreement during the examination period. The agreement is comprised of a co-insurance portion and a yearly renewable term (YRT) portion. The new reinsurance agreement was found to be in compliance with Washington State reinsurance statutes. All of the other reinsurance treaties were reviewed during the last examination and found to be in compliance. All of the reinsurers are authorized in the state of Washington. The treaties are properly classified in Schedule S of the 2009 NAIC Annual Statement. The Company has controls in place to adequately monitor its reinsurance program including the financial condition of the reinsurers.

STATUTORY DEPOSITS

The Company maintained the following statutory deposit as of December 31, 2009:

<u>State</u>	<u>Market Value</u>	<u>Statement Value</u>
Washington	\$1,949,112	\$1,942,011

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a cash basis of accounting and adjusted to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of DeCoria, Maichel & Teague. The Company received unqualified opinions with explanatory paragraphs for substantial doubt about the Company's going concern for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted except for those identified in the Instructions, and Comments and Recommendations in this report.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT system and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

A non-binding letter of intent was signed on October 12, 2010 with Government Personnel Mutual Insurance Company to purchase the Company.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous examination instructions were addressed and corrected.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of North Coast Life Insurance Company as of December 31, 2009:

Assets, Liabilities, Surplus and Other Funds

Summary of Operations

Five Year Reconciliation of Surplus

Analysis of Changes in Financial Statements Resulting from the Examination

North Coast Life Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$88,269,179	\$0	\$88,269,179
Preferred stocks	6,687,511		6,687,511
Mortgage loans on real estate - first liens	218,027		218,027
Cash, cash equivalents, and short-term investments	8,596,840		8,596,840
Contract loans	15,786,390		15,786,390
Other invested assets	<u>1,296,158</u>		<u>1,296,158</u>
Subtotals, cash and invested assets	120,854,105	0	120,854,105
Investment income due and accrued	1,561,342		1,561,342
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	76,530		76,530
Deferred premiums	1,742,367		1,742,367
Reinsurance:			
Funds held by or deposited with reinsured companies	3,040		3,040
Net deferred tax asset	412,219		412,219
Guaranty funds receivable or on deposit	12,893		12,893
Electronic data processing equipment and software	<u>2,471</u>		<u>2,471</u>
Total assets excluding separate accounts, segregated accounts and protected cell accounts	<u>124,664,967</u>	<u>0</u>	<u>124,664,967</u>
Total Assets	<u>\$124,664,967</u>	<u>\$0</u>	<u>\$124,664,967</u>

North Coast Life Insurance Company
Assets, Liabilities, Surplus and Other Funds (Continued)
December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
LIABILITIES, CAPITAL AND SURPLUS				
Aggregate reserve for life contracts	\$111,666,609	\$0	\$111,666,609	
Aggregate reserve for accident and health contracts	3,996		3,996	
Liability for deposit-type contracts	4,830,890		4,830,890	
Contract claims: life	130,054		130,054	
Dividends apportioned for payment	6,500		6,500	
Premiums and annuity considerations received in advance	30,117		30,117	
Interest maintenance reserve	818,253		818,253	
General expenses due or accrued	135,331		135,331	
Taxes, licenses and fees due or accrued	137,362		137,362	
Current federal and foreign income taxes	18,859		18,859	
Unearned investment income	417,449		417,449	
Amounts withheld or retained by company as agent or trustee	(41)		(41)	
Amounts held for agents' account	16,346		16,346	
Remittances and items not allocated	404,520		404,520	
Asset valuation reserve	276,197		276,197	
Payable for securities	163,424		163,424	
Aggregate write-ins for liabilities	70,297		70,297	
Total Liabilities	<u>119,126,163</u>	<u>0</u>	<u>119,126,163</u>	
Common capital stock	2,567,191	(348,872)	2,218,319	1
Preferred capital stock	360,790		360,790	
Gross paid in and contributed surplus	5,441,431	348,872	5,790,303	1
Unassigned funds (surplus)	(2,830,608)		(2,830,608)	
Total capital and surplus	<u>5,538,804</u>	<u>0</u>	<u>5,538,804</u>	
Total liabilities, capital and surplus	<u>\$124,664,967</u>	<u>\$0</u>	<u>\$124,664,967</u>	

**North Coast Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2009**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Income			
Premiums and annuity considerations	\$7,974,727	\$0	\$7,974,727
Consideration for supplementary contracts with life contingencies	50,000		50,000
Net investment income	7,197,633		7,197,633
Amortization of Interest Maintenance Reserve	(81,940)		(81,940)
Commissions and expense allowances on reinsurance ceded	<u>19,555</u>		<u>19,555</u>
Total Income	<u>15,159,975</u>	<u>0</u>	<u>15,159,975</u>
Benefits			
Death benefits	1,818,507		1,818,507
Matured endowments	9,224		9,224
Annuity benefits	3,556,337		3,556,337
Coupons and guaranteed annual pure endowments	83		83
Surrender benefits	3,515,277		3,515,277
Interest and adjustments on contracts or deposit-type contract funds	284,981		284,981
Payments on supplementary contracts with life contingencies	131,581		131,581
Increase in aggregate reserves for life and accident and health contracts	<u>2,455,369</u>		<u>2,455,369</u>
Total Benefits	<u>11,771,359</u>	<u>0</u>	<u>11,771,359</u>
Expenses			
Commissions on premiums, annuity considerations and deposit-type contract funds	493,735		493,735
General insurance expenses	2,143,980		2,143,980
Insurance taxes, licenses and fees	222,340		222,340
Increase in loading on deferred and uncollected premiums	<u>(44,499)</u>		<u>(44,499)</u>
Total Expenses	<u>14,586,915</u>	<u>0</u>	<u>14,586,915</u>
Net gain from operations before dividends to policyholders and federal income taxes	573,060		573,060
Dividends to policyholders	<u>4,220</u>		<u>4,220</u>
Net gain from operations after dividends to policyholders and before federal income taxes	568,840	0	568,840
Federal and foreign income taxes incurred	<u>94,290</u>		<u>94,290</u>
Net gain from operations after dividends to policyholders and after federal income taxes	474,550		474,550
Net realized capital gains and losses	<u>(2,176,847)</u>		<u>(2,176,847)</u>
Net income	<u>(\$1,702,297)</u>	<u>\$0</u>	<u>(\$1,702,297)</u>

**North Coast Life Insurance Company
Summary of Operations (Continued)
For the Year Ended December 31, 2009**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
CAPITAL AND SURPLUS ACCOUNT			
Capital and Surplus, December 31, prior year	\$5,737,259	\$0	\$5,737,259
Net income or (loss)	(1,702,297)		(1,702,297)
Change in net unrealized capital gains (losses) less capital gains tax	1,005,911		1,005,911
Change in net deferred income tax	(210,170)		(210,170)
Change in nonadmitted assets	574,953		574,953
Change in asset valuation reserve	(118,435)		(118,435)
Capital changes: paid in	75,250		75,250
Surplus adjustment: paid in	174,750		174,750
Aggregate write-ins for gains and losses in surplus	1,583		1,583
Net change in capital and surplus for the year	(198,455)	0	(198,455)
Capital and Surplus, December 31, current year	<u>\$5,538,804</u>	<u>\$0</u>	<u>\$5,538,804</u>

**North Coast Life Insurance Company
Five Year Reconciliation of Surplus
For the Years Ended December 31,**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and Surplus, December 31, Prior Year	<u>\$5,737,259</u>	<u>\$5,727,817</u>	<u>\$5,825,954</u>	<u>\$6,150,720</u>	<u>\$6,171,449</u>
Net income or (loss)	(1,702,297)	627,681	231,817	195,020	180,293
Change in net unrealized capital gains (losses)	1,005,911	(1,312,513)	80,344	31,301	(8,588)
Change in net deferred income tax	(210,170)	329,927	(65,798)	158,124	(197,646)
Change in nonadmitted assets and related items	574,953	(376,644)	67,748	(136,372)	170,733
Change in asset valuation reserve	(118,435)	716,641	(291,674)	(110,140)	183,927
Change in surplus notes	-	(250,000)	(50,000)	(100,000)	-
Capital changes: paid in	75,250	208,100	140,000	-	-
Surplus adjustment: paid in	174,750	66,250	60,000	-	-
Change in surplus as a result of reinsurance	-	-	-	-	(349,448)
Dividends to stockholders	-	-	(272,018)	(362,699)	-
Aggregate write-ins for gains & losses in surplus	1,583	-	1,444	-	-
Net change in capital & surplus	(198,455)	9,442	(98,137)	(324,766)	(20,729)
Capital and Surplus, December 31, current year	<u>\$5,538,804</u>	<u>\$5,737,259</u>	<u>\$5,727,817</u>	<u>\$5,825,954</u>	<u>\$6,150,720</u>

North Coast Life Insurance Company
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2009

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2009 Per Annual Statement					\$5,538,804
Liabilities, Surplus and Other Funds					
Common capital stock	2,567,191	2,218,319	1	348,872	
Gross paid in and contributed Surplus	5,441,431	5,790,303	1	<u>(348,872)</u>	
Change in Surplus					<u>0</u>
Capital and surplus 12/31/2009 Per Examination					<u><u>\$5,538,804</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. The Company amended its Articles of Incorporation on October 23, 2009 to change the par value of its common stock from \$3.50 per share to \$3.01 per share. However, the Company did not report this change in its 2009 NAIC Annual Statement and continued to report the par value of common stock at \$3.50 per share. (See Instruction No.5.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of North Coast Life Insurance Company and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, CFE, FLMI, Reinsurance Specialist; Roy Olson, FSA, MAAA, Life Actuary; H. Lee Michelson, FSA, MAAA, CLU, Associate Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Dinesh Weerasooriya, CPA, Financial Examiner; Cynthia Clark, CPA, Financial Examiner; and Eula Rath, CPA, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

