STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

LINCOLN MUTUAL LIFE AND CASUALTY INSURANCE COMPANY
FARGO, NORTH DAKOTA

AS OF
DECEMBER 31, 2008

STATE OF NORTH DAKOTA

INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the

Lincoln Mutual Life and Casualty Insurance Company

Fargo, North Dakota

as of December 31, 2008, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

COMMISSIONER OF INSURANCE SEAL STATE OF NORTH DAKOTA

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 16th day of September, 2010.

Adam Hamm
Commissioner

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Fargo, North Dakota
May 14, 2010

Honorable Alfred W. Gross
Chair, Financial Condition Committee
Subcommittee, NAIC
Commissioner
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, VA 23218

Honorable Merle Scheiber
Secretary, Midwestern Zone
Director
Department of Revenue and Regulation
South Dakota Division of Insurance
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

Lincoln Mutual Life and Casualty Insurance Company

Fargo, North Dakota

Lincoln Mutual Life and Casualty Insurance Company, hereinafter referred to as the "Company" or "LML" was last examined as of December 31, 2003, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2004, to and including December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks, All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Work papers provided by the Company's independent auditor, Eide Bailly LLP, were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

All recommendations made in the prior statutory examination report have been adequately addressed by the Company except for the recommendation that the Company submit the appropriate filing to the Securities Valuation Office (SVO) due to its investment in Noridian Insurance Services, Inc. The Company had expected the largest security holder to complete the filing but as of the report date the filing has not been completed. The largest security holder is in the process of filing with the SVO.

HISTORY

General

The Company was incorporated on September 13, 1935, under the laws of the State of North Dakota as the "Lincoln Mutual Health and Accident Insurance Association," writing only accident and health insurance.

New Articles of Incorporation and Bylaws were adopted on December 27, 1946, changing the Company's corporate structure to comply with amended Chapter 26-08 of the North Dakota Revised Code of 1943. The Company's name was also changed to "Lincoln Mutual Life and Casualty Insurance Company."

In 1951, the Company acquired the business of the following two entities through merger: Mid-Continental Mutual Life of Minneapolis, Minnesota, and the National United Mutual Life Insurance Company of Fargo, North Dakota. The Company later acquired the Education Mutual Benefit Association of Aberdeen, South Dakota, by means of a 1957 merger. In 1989 the Company associated with Noridian Mutual Insurance Company, of Fargo, North Dakota, to offer group life and group disability insurance. In 1995 the Company assumed all of the North Dakota group life and accident and health insurance from Medical Life Insurance Company of Cleveland, Ohio.

MANAGEMENT AND CONTROL

Membership

Membership consists of every policyholder insured by the Company or policy owner if different from the primary insured. Each member is entitled to one vote at all annual or special meetings. The annual meeting shall be held on a date in the month of April as determined by the Board of Directors.

Board of Directors

The Bylaws provide that the Board of Directors will be composed of eight persons who will be elected at the annual meeting of the policyholders in such manner as to result in, as nearly as practicable, an equal number to be elected each year. The directors are elected for three-year terms and serve until their successors are elected and qualified.

The annual meeting of the Board of Directors is held immediately after the annual meeting of the policyholders. The dates and time of regular Board meetings are determined by the Directors.

The Company is party to a Controlled Affiliate License Agreement with the Blue Cross Blue Shield Association which allows the Company to market its group life and group disability products along with Blue Cross Blue Shield of North Dakota (BCBSND) products. To be considered a controlled affiliate under the License Agreement, the Company must be subject to the bona fide control of BCBSND requiring BCBSND to hold a majority representation on the Company's Board of Directors. As of December 31, 2008, six of the eight Company Directors were affiliated with BCBSND.

Directors serving at December 31, 2008, were as follows:

Name and Address	**Business Affiliations**
Chad S. Niles Fargo, ND	Senior Vice President of Marketing Noridian Mutual Insurance Company
Robert L. Lamp Fargo, ND	President Association Services, Inc.
Laura D. Carley Fargo, ND	Special Projects Coordinator Industrial Builders, Inc.
Dick M. Johnsen Bismarck, ND	President, CEO, Johnsen Trailers Sales, Inc.
Roger A. Kenner Leeds, ND	Owner, Kenner Seed Farm/Simmental Ranch
Lawrence J. Zich Fargo, ND	President of Lincoln Mutual Life and Casualty Insurance Company
Jerome W. Schmidt * Valley City, ND	Pharmacist, Valley Drug
Michael B. Unhjem ** Fargo, ND	President & CEO Noridian Mutual Insurance Company

* Resigned August 26, 2009
** Resigned April 1, 2009
*** Appointed by the Board on April 1, 2009, Tim Huckle, Executive Vice President, Health Operations, Noridian Mutual Insurance Company, and on April 12, 2010, Dave Breuer, Senior Vice President of Finance and Chief Financial Officer, Noridian Mutual Insurance Company.

Officers

The Bylaws provide that the managing corporate officers shall include a President and Chief Executive Officer, an Executive Vice President, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers as are deemed desirable.

The managing corporate officers serving at December 31, 2008, were as follows:

Michael B. Unhjem *	Chairman of the Board
Lawrence J. Zich	President, Treasurer, CFO
Chad S. Niles	Executive Vice President, COO
Kim R. Janecky	Vice President, Secretary

* Resigned April 1, 2009

Committees

The Bylaws provide that the Company shall have four standing committees: an Executive, Investment, Audit and Proxy Committee. Committee members at December 31, 2008, were as follows:

Executive Committee	Chad S. Niles Roger A. Kenner Lawrence J. Zich Michael B. Unhjem, Chairman*
Investment Committee	Chad S. Niles Laura D. Carley Lawrence J. Zich Michael B. Unhjem, Chairman*
Audit Committee	Jerry W Schmidt** Dick M. Johnsen, Chairman Robert L. Lamp
Proxy Committee	Chad S. Niles Laura D. Carley, Chairperson Jerry W. Schmidt**

* Resigned April 1, 2009
** Resigned August 26, 2009

Conflict of Interest

The Board of Directors has adopted a policy statement on conflict of interest for disclosure of any possible conflicts. The procedure requires all directors, officers, and responsible employees to annually complete and sign a questionnaire indicating all possible conflicts.

The conflict of interest statements for the years under examination were reviewed and no differences were noted.

Corporate Records

The following amendments to the Articles and Bylaws were adopted during the period under examination:

Articles of Incorporation:

Article 1	Use of the term "Corporation" was changed to "Company."
Article 2	Registered office and registered agent information was added.
Article 3	The Company's purpose was revised consistent with amendments to controlling chapters of the North Dakota Century Code.

Articles 4 & 5	Use of the term "Policyholders" was changed to "Members" and several grammatical revisions were made.
Article 6	Requirement for amending the Articles of Incorporation was changed to the affirmative vote of two-thirds of members present and voting in person or by proxy at any annual meeting or special meeting. A statutory reference was revised to be consistent with the recodification of the North Dakota Century Code.

Bylaws:

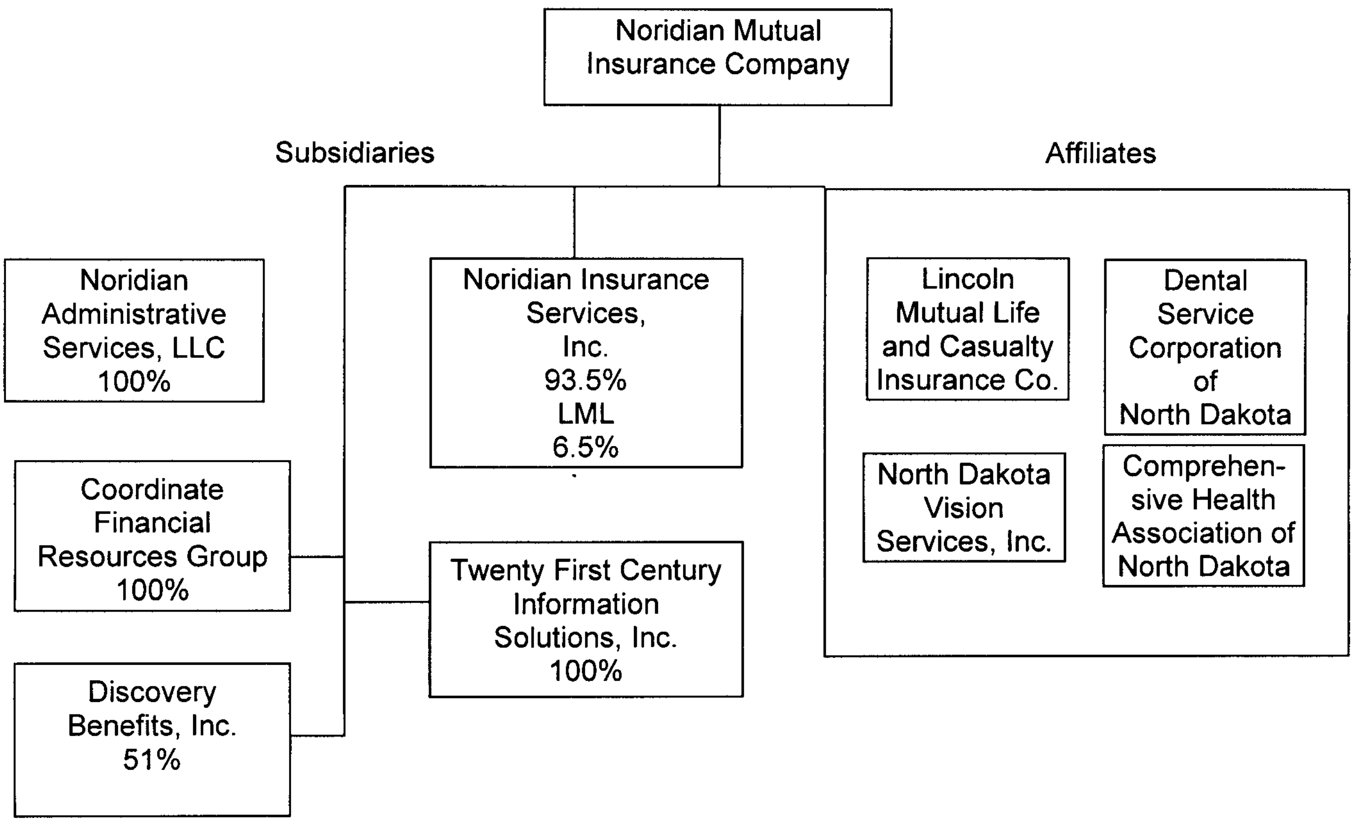
Various Articles	The Company undertook a comprehensive review of its Bylaws in 2004. The resulting amendments to the Bylaws included realignment of existing provisions and grammatical clarifications as well as more substantive amendments including, but not limited to: removal of the corporate purpose, updates to notice processes and meeting requirements for annual meetings and special meetings, clarification of the general powers of the Board of Directors as well as procedures for filling Board vacancies, addition of the Proxy Committee as a standing committee, and addition of the members' right to adopt, amend, or repeal the Bylaws by two-thirds vote at any annual meeting or special meeting of the members.

Board of Directors, Policyholders and Committee Minutes

The minutes of the Board of Directors, policyholders, and committee meetings for the period under examination were reviewed.

AFFILIATES

The relationship of the Company to Noridian Mutual Insurance Company (Noridian) and its subsidiaries and affiliates at December 31, 2008, is shown in the following organizational chart:



As of December 31, 2008, six officers or directors of Noridian were serving on the Company's eight-member Board of Directors and one officer of Noridian was also serving as a Company officer. These individuals are as follows:

Name	LML Position	Noridian Position
Michael B. Unhjem*	Director/Chairman of Board	President & CEO
Chad S. Niles	Director, Executive VP & COO	Senior Vice President-Marketing
Laura D. Carley	Director	Director
Robert L. Lamp	Director	Director
Dick M. Johnsen	Director	Director
Roger A. Kenner	Director	Director

* Resigned April 1, 2009

In addition, three LML Board members are also Board members of Noridian Insurance Services, Inc. They are Larry Zich, Chad Niles and Bob Lamp.

Noridian Mutual Insurance Company d/b/a Blue Cross Blue Shield of North Dakota is incorporated in North Dakota as a nonprofit mutual insurance company and is governed by Chapter 26.1-12 and Section 26.1-17-33.1 of the North Dakota Century Code. It provides health benefits under contract to subscribers mainly though hospitals and physicians.

North Dakota Vision Services, Inc. and Dental Service Corporation of North Dakota are incorporated in North Dakota as nonprofit health service corporations under N.D.C.C. Chapter 26.1-17. These entities offer benefits for certain optometric and dental care services to North Dakota subscribers.

Comprehensive Health Association of North Dakota (CHAND) was created by the 1981 Legislature to provide comprehensive health insurance to residents of the state who had been denied health insurance or had been given restricted coverage. Noridian Mutual Insurance Company has served as the lead carrier of CHAND since 1983 and performs administrative and claim payment functions for CHAND.

Noridian Administrative Services, LLC (NAS) was formed in 2002 to perform Medicare processing functions. NAS has over 1,000 employees and is a wholly-owned subsidiary of Noridian.

Noridian Insurance Services, Inc. (NISI) is a subsidiary of Noridian and serves as an insurance agency for Noridian. It provides group life and disability products of LML to the BCBSND sales force. It is 93.5% owned by Noridian and 6.5% by the Company.

Coordinate Financial Resources Group was formed as a brokerage company and is now dormant.

Twenty First Century Information Solutions, Inc. was formed as an electronic data exchange company and is now dormant.

Discovery Benefits Inc. provides flexible benefits and COBRA products and is 51% owned by Noridian Mutual Insurance Company.

AFFILIATE TRANSACTIONS

Facilities Management and Service Agreement

Under a March 1, 1989, facilities management and service agreement, employees of the Company became employees of Noridian, receiving credit for years of service with the Company in the benefit programs of Noridian. For the year ended December 31, 2008, contributions of $137,990 were made by Noridian to its defined benefit pension plan which contributions are allocable to the Company's operations.

In 2004 the facilities management and service agreement originally signed with Noridian Insurance Service, Inc. was changed to Noridian Mutual Insurance Company. Noridian Mutual performs long-term administration, management, marketing and insurance services for the Company as directed by the Company's Board of Directors.

Compensation for services is based on a cost accounting system which allocates expenses to the Company based on actual utilization. Management fees paid Noridian by the Company in 2008 were $2,015,693.

Noridian Insurance Services, Inc.

Effective January 1, 2003, the Company entered into an agreement with Noridian Insurance Services, Inc. (NISI) as the sole and exclusive agent for the sale of group life and disability insurance in North Dakota. The term of the agreement was from January 1, 2000, through December 31, 2004, and automatically extends thereafter from year to year. The agreement can be terminated by either party by giving the other party at least 90 days' advance written notice. Commissions paid to NISI during the period under examination are as follows:

2004	$682,516
2005	$797,109
2006	$849,729
2007	$945,842
2008	$1,003,406

Profit Sharing Agreement

Effective January 1, 2000, the Company entered into a profit sharing agreement with Noridian Mutual Insurance Company (Noridian). The agreement provides for Noridian to receive profit sharing gains from the sale of Company products marketed through NISI, Noridian's subsidiary and paid out by LML. The agreement was amended effective January 1, 2003, changing the method used to compute the profit sharing amount. Under the amendment adopted effective January 1, 2003, Noridian's share of the net gains* are determined in accordance with the following schedule:

Profit up to $200,000	50%
Profit between $200,001 - $400,000	60%
Profit between $400,001 - $600,000	70%
Profit between $600,001 - $800,000	80%
Profit over $800,000	90%

* If the Company's net income as reported on line 35 of the Company's Annual Statement shows a loss, 25% of Noridian's profit sharing will be forfeited to the Company up to a maximum amount of $100,000.

The agreement provides for annual settlements which are due within 120 days after the close of each calendar year. Settlements to Noridian under the profit sharing agreement during the period under review were:

2004	$793,041
2005	$408,248
2006	$364,177
2007	$388.961
2008	$784,809

Effective January 1, 2005 the profit sharing agreement was modified to pay the profit sharing to Noridian Insurance Services, Inc. rather than Noridian Mutual.

SERVICE AND MANAGEMENT AGREEMENTS

Group Life Administration and Marketing Agreement

Under an October 9, 1992, group life administration and marketing agreement between the Company and Pioneer Mutual Life Insurance Company (PML), the Company performs various administrative services relating to group life business that is sold by PML and ceded to the Company under a separate reinsurance agreement. The services performed by the Company include underwriting, policy issue, policy maintenance, policyholder services, claims and premium billing. Marketing expenses incurred by PML are reimbursed by the Company and PML also receives a share of profits as specified in the agreement.

Flexible Benefits Administration Agreement

The Company's flexible benefits business is administered by Noridian Benefits Plan Administrators. The Company paid fees of $27,460 for this service in 2008.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured on a financial institution bond providing coverage to Noridian Mutual Insurance Company and affiliated companies. The bond specifies a single loss limit of liability in the amount of $5,000,000 for loss resulting from dishonest or fraudulent acts committed by an employee. The coverage exceeds the minimum amount recommended for the Company and its affiliates in the NAIC's *Financial Examiners Handbook.*

Other insurance coverage covering the Company appeared adequate.

EMPLOYEE WELFARE AND PENSION PLANS

As noted above, employees of the Company became employees of Noridian pursuant to a March 1, 1989, facilities management and service agreement. Contributions by Noridian to the cost of employee welfare and pension plans are allocable to the Company's operations. The following benefits are available to Noridian employees:

- Group life and accidental death and dismemberment insurance coverage
- Hospital, medical, surgery, vision, and dental insurance coverage
- Retirement benefits through the National Retirement Program of the Blue Cross and Blue Shield Association
- Disability benefits through a national long-term disability program
- Salary savings through a contributory defined contribution plan
- Long term care coverage
- Post employment benefits

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2008, for the benefit of all policyholders:

Location	Type of Asset	Par Value	Statement Value	Market Value
North Dakota	Bond	$5,279,000	$5,285,790	$5,453,140

Other special deposits at December 31, 2008, are as follows:

Location	Type of Asset	Par Value	Statement Value	Market Value
New Mexico	Bond	$ 100,000	$ 100,000	$ 112,078
Wells Fargo, Fargo ND in trust for Pioneer Mutual Life Insurance Company	Bond	1,650,000	1,648,076	1,789,949
Total		$7,029,000	$7,033,866	$7,355,167

Pursuant to Section 66-2207 of the Arizona Revised Statutes, the Company maintains a permanent guaranty fund of $500,000 to comply with that state's minimum permanent surplus. In review with the state of Arizona there is no longer a requirement for these deposits and in 2009 the $500,000 was moved back to Unassigned Surplus.

TERRITORY AND PLAN OF OPERATION

At December 31, 2008, the Company was licensed in 15 states with approximately 97% of its direct business written in the state of North Dakota. States in which the Company is licensed are as follows:

Arizona	Kansas	North Dakota	Utah
Colorado	Minnesota	Oklahoma	Wisconsin
Idaho	Montana	Oregon	Wyoming
Iowa	Nebraska	South Dakota	

The Company's direct business in 2008 consisted primarily of group life and group disability.

Effective December 31, 2003, the Company discontinued health insurance in South Dakota. The health business was 100% reinsured with Noridian Mutual Insurance Company.

Growth

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Premium Income	Net Income (Loss)*
2003	$31,740,952	$22,822,423	$8,918,529	$5,920,546	$694,274
2004	32,413,050	23,101,947	9,311,103	5,577,615	389,553
2005	32,269,532	22,622,432	9,647,100	5,604,327	354,091
2006	32,225,328	22,199,384	10,025,944	6,056,183	215,112
2007	31,825,073	21,235,974	10,589,099	6,312,108	492,703
2008	31,978,254	21,221,308	10,756,946	6,606,385	658,582

* Net Income (Loss) before realized capital gains or losses.

2003 and 2008 data was extracted from the examinations and 2004-2007 data was extracted from the Company's Annual Statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

The North Dakota Insurance Department performs a review of these areas and issues a separate market conduct report. The last report was as of 1999.

REINSURANCE

The Company's significant reinsurance treaties in force at December 31, 2008, are summarized below.

Life and Annuity Reinsurance Ceded:

1. Type: Yearly Renewable Term, automatic and facultative

	Reinsurer:	Swiss Re Life and Health America, Inc.
	Scope:	Group life, accidental death and dismemberment benefits and any disability benefit written supplementary to the life benefit.
	Retention:	Group Life - $40,000 Group Accidental Death and Dismemberment – 10% of each issue up to a maximum of $10,000
	Coverage:	Benefits in excess of cedant's maximum limit of retention
	Premium:	Scheduled rates per thousand
	Effective Date:	August 1, 1989
	Termination:	By either party giving 90 days written notice
2.	Type:	Yearly Renewable Term, facultative
	Reinsurer:	Munich America Reinsurance Company
	Scope:	Group Life and accidental death and dismemberment, covering one policyholder
	Retention:	Group Life – 50% up to $40,000 maximum Group Accidental Death and Dismemberment – 10% up to $10,000
	Coverage:	Benefits in excess of the Company's maximum limit of retention
	Premium:	Scheduled rates per thousand
	Effective Date:	January 1, 2005
	Termination:	By either party giving 120 day written notice as of January 1st anniversary
3.	Type:	Yearly Renewable Term, automatic retrocession
	Reinsurer:	Pioneer Mutual Life Insurance Company
	Scope:	Life insurance amounts at risk on the portion of the original policy reinsured by the Company.
	Retention:	$30,000 per life for most risks The maximum combined retention of cedant and retrocessionaire: $200,000, standard to table 4 risks, ages 0-40

	Coverage:	Amounts at risk (i.e., projected death benefit less the projected cash value less the Company's retention) for individual life insurance and supplementary benefits assumed by the Company for business first processed on or after April 1, 1992, on specified plans.
	Premium:	Scheduled rates per thousand
	Effective Date:	April 1, 1992
	Termination:	By either party giving 90 days notice.
4.	Type:	Yearly Renewable Term, automatic and facultative
	Reinsurer:	Swiss Re Life and Health America, Inc
	Scope:	Business sold as Policy Form VGTL-195, and classified as voluntary group term life and group accidental death and dismemberment issued as a rider to voluntary group term life.
	Retention:	Voluntary group term life – 50% of first $60,000 claims per insured Group accidental death & dismemberment - none
	Coverage:	Voluntary group term life – 50% of the first $60,000 claims per insured and 100% of the excess above $60,000 to a maximum issue amount of $300,000. Group accidental death and dismemberment – 100% of claims per insured up to a maximum of $300,000 of claims per insured.
	Premium:	Scheduled rates per thousand
	Commission:	Life 37.5% and AD&D 45%
	Effective Date:	July 1, 2008
	Termination:	By either party giving 90 days written notice

Life Reinsurance Assumed:

1.	Type:	Coinsurance, automatic
	Cedant:	Pioneer Mutual Life Insurance Company
	Scope:	Individual life insurance and supplementary benefits including disability waiver of premium and accidental death benefits.

	Retention:	None
	Coverage:	Risks up to 100% on one life
	Premium:	100% of the gross premium collected.
	Effective Date:	April 1, 1992
	Termination:	By either party giving 90 days written notice by registered letter.
2.	Type:	Coinsurance, automatic and facultative
	Cedant:	Pioneer Mutual Life Insurance Company
	Scope:	Group life and group accidental death benefits and dismemberment benefits.
	Retention:	Maximum retention is 10% of issue amounts up to $300,000 per group with employees numbering 501 or more
	Coverage:	90% of indicated risks
	Premium:	90% of the premium on business reinsured under the Agreement
	Other:	After ceded business totals $250,000 of annualized premium, reinsurer pays cedant 25% of net earned premium less: commissions incurred; claim benefits incurred; waiver of premium and conversion charges; general insurance expenses up to 18%; taxes, licenses, fees; and losses carried forward from three preceding accounting periods.
	Effective Date:	June 1, 1992
	Termination:	By either party giving 90 days written notice

Accident and Group Disability Reinsurance Ceded:

1.	Type:	Coinsurance, Treaty and Facultative
	Reinsurer:	American Disability Reinsurance Underwriters Syndicate, underwritten by Reliance Standard Life Insurance Company
	Managing Agent:	Custom Disability Solutions
	Scope:	Group long term and short-term disability policies.
	Retention:	Short-term disability – 50% Long-term disability – 0%

Coverage:	Short-term disability – 50% Long-term disability – 100%
Premium:	Percentage of premiums received determined for each policy upon reinsurer's acceptance of liability.
Effective Date:	July 1, 1997
Termination:	Either party may cancel by written notice received prior to October 1

All treaties subject to reserve credit limitations contain an insolvency clause as required by N.D.C.C. § 26.1-02-21.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2008, was traced to the appropriate schedules of the Company's 2008 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below.

Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2008
Summary of Operations, Year 2008
Reconciliation of Capital and Surplus, January 1, 2004 through December 31, 2008

Lincoln Mutual Life and Casualty Insurance Company
Assets
As of December 31, 2008

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$24,704,160		$24,704,160
Stocks:			
Preferred Stock	316,105		316,105
Common Stocks	2,660,503		2,660,503
Cash	(222,834)		(222,834)
Short-term Investments	3,303,099		3,303,099
Contract Loans	619,734		619,734
Investment Income Due and Accrued	314,020		314,020
Premiums and Considerations:			
Uncollected Premiums and Reinsurance Premiums Due	(411,875)		(411,875)
Deferred Premiums	109,998		109,998
Reinsurance:			
Amounts Recoverable from Reinsurers	186,957		186,957
Current Federal Income Tax Recoverable	50,000		50,000
Net Deferred Tax Asset	422,857	$299,218	123,639
Guaranty Funds Receivable or on Deposit	62,801		62,801
Electronic Data Processing Equipment and Software	18,605		18,605
Receivable From Parent, Subsidiaries and Affiliates	15,373		15,373
Other Receivables Nonadmitted	1,947	1,947	
Accounts Receivable – STD for Self-Funded Accounts	15,402		15,402
Accounts Receivable – PML – Reinsurance	112,566		112,566
Totals	$32,279,418	$301,165	$31,978,254

Lincoln Mutual Life and Casualty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2008

Aggregate Reserve for Life Contracts		$16,895,800
Aggregate Reserve for Accident and Health Contracts		340,950
Liability for Deposit-Type Contracts		1,661,443
Contract Claims:		
Life		488,825
Accident and Health		109,500
Provision for Policyholders' Dividends Payable in Following Calendar Year:		
Dividends Apportioned for Payment to December 31, 2009		75,000
Premiums and Annuity Considerations Received in Advance		96,176
Interest Maintenance Reserve		243,783
Commissions to Agents Due or Accrued		24,261
Commissions and Expense Allowances Payable on Reinsurance Assumed		1,314
General Expenses Due or Accrued		920,800
Taxes, Licenses, and Fees Due or Accrued		68,298
Current Federal Income Taxes		99,756
Unearned Investment Income		13,709
Amounts Withheld or Retained by Company as Agent or Trustee		7,924
Remittances and Items Not Allocated		3,123
Asset Valuation Reserve		78,478
Payable for Securities		19,281
Interest Due on Policy Funds and Stale Checks		1,500
Accounts Payable PML on Group Reinsurance		1,735
Guaranty Association Liability		69,654
Total Liabilities		$21,221,308
Permanent Guaranty Fund *	$ 500,000	
Unassigned Funds	10,256,946	
Total Surplus		$ 10,756,946
Total Liabilities and Surplus		$31,978,254

* Permanent Guaranty Fund was held for the state of Arizona which no longer has this requirement and in 2009 the $500,000 was moved to Unassigned Funds.

Lincoln Mutual Life and Casualty Insurance Company
Summary of Operations
For the Year Ended December 31, 2008

Premiums and Annuity Considerations	$6,606,385
Net Investment Income	1,393,594
Amortization of Interest Maintenance Reserve	68,379
Commissions and Expense Allowances on Reinsurance Ceded	422,362
Group Experience Refund	145,014
Miscellaneous Income	104,578
Total	$8,740,312
Deduct:	
Death Benefits	$2,447,244
Matured Endowments	12,874
Annuity Benefits	30,456
Disability Benefits and Benefits under Accident and Health Contracts	411,054
Surrender Benefits and Withdrawals for Life Contracts	345,858
Interest and Adjustments on Contract or Deposit-Type Contract Funds	41,536
Payments on Supplementary Contracts with Life Contingencies	1,319
Increase in Aggregate Reserve for Life and Accident and Health Contracts	236,528
Total	$3,526,869
Commissions on Premiums and Annuity Considerations (Direct)	$1,101,251
Commissions and Expense Allowances on Reinsurance Assumed	30,067
General Insurance Expenses	2,865,560
Insurance Taxes, Licenses, and Fees	334,115
Increase in Loading on Deferred and Uncollected Premium	7,188
Total	$7,865,050
Net Gain from Operations before Dividends to Policyholders and Federal Income Taxes	$ 875,262
Dividends to Policyholders	72,165
Net Gain from Operations after Dividends to Policyholders and Before Federal Income Taxes	$ 803,097
Federal Income Taxes Incurred	144,515
Net Gain from Operations after Dividends to Policyholders and Federal Income Taxes and Before Realized Capital Gains or (Losses)	$ 658,582
Net Realized Capital Gains or (Losses)	(125,402)
Net Income	$ 533,180

Lincoln Mutual Life and Casualty Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2004, through December 31, 2008

	2008	2007	2006	2005	2004
Capital and Surplus, December 31, Prior Year	$10,589,099	$10,025,944	$ 9,647,100	$9,311,103	$8,918,529
Net Income	533,180	680,720	403,686	495,741	554,101
Change in Net Unrealized Capital Gains (Losses)	(853,099)	(94,697)	94,571	(139,145)	(92,268)
Change in Net Deferred Income Tax	49,577	(10,626)	(7,188)	(4,719)	(11,000)
Change in Nonadmitted Assets and Related Items	(252,985)	17,760	33,040	(17,847)	(5,219)
Change in Asset Valuation Reserve	691,174	(30,003)	(145,266)	1,967	(53,040)
Net Change in Capital and Surplus for the Year	167,847	563,155	378,843	335,997	392,574
Capital and Surplus, December 31, Current Year	$10,756,946	$10,589,099	$10,025,944	$9,647,100	$9,311,103

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2008, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Profit Sharing Agreement

The examiners noted variances with the calculation of annual profit sharing payments to Noridian/NISI that are not in accordance with the Profit Sharing Agreement.

1. The Analysis of Operations by Lines of Business page in the Company's Annual Statement is specified in Section 4A of the Agreement as the basis of the profit sharing calculation with adjustments, in part, for:

   - Amounts pertaining to a profit sharing agreement with Pioneer Mutual Life Insurance Company, and

   - The general expense deduction and the taxes, licenses and fees (TLF) deduction which deductions "will be adjusted to a ratio based on the average of the last three (3) actual years of expense to the average of the last three years of direct premiums from page 6, column seven (7) and column nine (9) of LML's Annual Statement."

   The Company's profit sharing calculation does not comply with the provisions in Section 4A of the Agreement due to its erroneous computation of the ratios for the general expense and TLF deductions resulting from the exclusion of the profit sharing expense paid in the prior three years and the exclusion of certain 2006 executive severance costs (explained below). The impact of the erroneous computation is to understate the general expense and TLF deductions and to overstate the net income available for profit sharing. Consequently, the profit sharing payments to Noridian/NISI were higher than specified by the Agreement.

2. Business written under a Single Case Commission Agreement is to be excluded from the Company's profit sharing calculation under Section 4A of the Agreement. The examiners noted group policies for which commissions were reduced in order to offer lower rates. This business was not excluded in the Company's profit sharing calculation.

3. The Profit Sharing Agreement provides that the Company will receive the benefit of Noridian's market share in the insurance industry in North Dakota and Minnesota through access to the Noridian marketing staff and its captive sales force. The Company's profit sharing calculation includes Minnesota business even though NISI does not market the Company's products in Minnesota.

4. The Company's Board of Director meeting minutes for January 29, 2007, evidence the adoption of a resolution that authorizes the exclusion of certain 2006 executive severance costs from the administrative costs formula in the Profit Sharing Agreement. This exclusion was not in conformance with the Profit Sharing Agreement.

The Profit Sharing Agreement is subject to the standards set out in N.D.C.C. § 26.1-10-05 for affiliated transactions and to the guidance in SSAP No. 25, paragraph 17, that states: "Regulatory scrutiny of related party transactions where amounts charged for services do not meet the fair and reasonable standard established by Appendix A-440, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action."

It is recommended that the Company recalculate the profit sharing payments for each year under examination in adherence with the provisions of the Profit Sharing Agreement, submit the recalculation schedules to the Insurance Department for review and approval, and collect reimbursement for any overpayments paid to Noridian/NISI.

It is recommended that the Company's Board of Directors reconsider the Profit Sharing Agreement as to whether the benefits received and costs incurred by the Company reflect a fair value transaction and whether the percentages of net gains in excess of 50% paid under the existing Exhibit A (Noridian/NISI Portion of Net Gains) of the Agreement are fair and reasonable to the Company and its policyholders.

COMMENTS ON OPERATIONS AND COMPLIANCE

Board Action on Affiliated Transactions

As a controlled affiliate of Noridian pursuant to the Controlled Affiliate License Agreement with the Blue Cross Blue Shield Association, Noridian is required to hold a majority (51%) representation on the Company's Board of Directors. Of the eight directors on the Company's Board, six are officers of Noridian or are directors on Noridian's Board as of December 31, 2008. In all actions taken by a Company director, the director must act in the best interests of the Company and its policyholders. The appearance of conflict with the duties of care and loyalty exist when the six directors with dual roles approve affiliated transactions that reflect actual or potentially adverse interests of the Company and of an affiliated entity.

To mitigate the appearance of conflict in regard to affiliated agreements and transactions, it is recommended that:

- **Three of the eight director positions on the Board should be held by persons with no affiliation with Noridian or its affiliated entities.**
- **The directors with dual roles and responsibilities to affiliated entities abstain from voting on affiliated agreements and transactions.**
- **The unaffiliated directors on the Board should review and reaffirm on a yearly basis any existing affiliated agreements and transactions.**

Holding Company Filings

The annual Form B holding company system registration statements filed on behalf of the Company during the period under examination failed to disclose the following agreements:

- Agency Agreement between NISI and LML (effective January 1, 2000, amended January 1, 2003)
- Profit Sharing Agreement between Noridian Mutual Insurance Company and LML (effective January 1, 2000, amended January 1, 2005 to include NISI)

N.D.C.C. § 26.1-10-04(2) requires every insurance company subject to the holding company registration provisions to file an annual registration statement that contains current information about "agreements in force, relationships subsisting, and transactions currently outstanding or which have occurred during the last calendar year between the insurance company and its affiliates" (emphasis added). N.D. Admin. Code § 45-03-05-13 and related Form B instructions require that a description of the agreement(s) be given that permits a proper evaluation by the Department and that includes at least the following: "the nature and purpose of the transaction, the nature and amounts of any payments or transfers of assets between the parties, the identity of all parties to such transaction, and relationship of the affiliated parties to the Registrant." Both the Profit Sharing Agreement and the Agency Agreement met the materiality threshold of "one-half of one percent or less of an insurance company's admitted assets as of December thirty-first next preceding" as provided in N.D.C.C. § 26.1-10-04(3).

The annual Form B holding company system registration statements filed on behalf of the Company on February 28, 2007, did disclose the Company's infusion of additional paid in capital of $209,000 into NISI during 2006. The Company was not in compliance with N.D.C.C. § 26.1-10-04(4) which provides that "...each registered insurance company shall keep current the information required to be disclosed in its registration statement by reporting all material changes or additions...within fifteen days after the end of the month in which it learns of each change or addition." The August 28, 2006, capital contribution met the materiality threshold; consequently, an amended Form B was required to be filed by September 15, 2006.

It is recommended that the Company comply with strict adherence to the requirements of the holding company statutes and rules.

Use of Policy Type Forms Not Approved

Effective January 1, 2005, the Company issued a group long term disability policy to an employer. In connection with that policy, the Company issued a document titled Waiver of Contributions to the Group Health Program which obligates the Company to pay the employer, while the employee is disabled, for any required employer or employee contributions to any of the coverages the employee had under the group health program. This form was not submitted to the North Dakota Insurance Department for approval. This decision to use the form without approval violates N.D.C.C. § 26.1-30-19.

It is recommended that the statutes of North Dakota be followed regarding approval of insurance policies.

Compensation of Officers

The Bylaws of the Company, Article IV, Section 1 provides for the Board to have and exercise certain powers and duties, one of which is to fix salaries of the Company. Article VI, Section 2 states, "The appointment of officers appointed by the President, their compensation and employment shall be subject to the approval of the Board of Directors."

As indicated by the absence of discussion in Board meeting minutes, the Board does not participate in determining the compensation levels of officers and the compensation levels have not been shared with the Board.

It is recommended that the Board fix and/or approve the salaries as required by the Bylaws.

Trust Agreements for Products Sold to Policyholders

The Company sells all of the small group (defined as two to nine lives) policies through a trust called Midwest Employers Business Insurance Group Trust (MEG Trust) with the Company issuing a group insurance policy to the "Trustees of the Trust." Certificates are then issued to the insured employees. These sales are a significant part of the Company's business.

The Company also sells policies within financial institutions and this business is also placed through a trust called Depositor Group Term Life Insurance Trust. These sales are immaterial.

Neither of the trust instruments could be provided by the Company.

It is recommended that the trust documents be located and reviewed to ensure all obligations of the Company have been met. If they cannot be located, then the Company should take the necessary steps to recreate the instruments and then ensure all terms of the trust instruments are met. It is also recommended the Company improve its record keeping.

Administration of the Company's Flexible Benefits Business

The Company has an agreement with Benefit Plan Administrators, Inc. (BPA) to process its flexible benefits business. BPA has since been purchased by Noridian and is now a division referred to as Noridian Benefits Plan Administrators. The payments per year are not material; however, the Company does not know how the charges are determined.

It is recommended that the Company locate the BPA Agreement and ensure payments and services are in conformity with the agreement. If it cannot be located, then another agreement should be prepared. It is also recommended the Company improve its record keeping.

CONCLUSION

The financial condition of the Company, as of December 31, 2008, as determined by this examination, is summarized as follows:

Admitted Assets		$31,978,254
Total Liabilities	$21,221,308	
Surplus as Regards Policyholders	10,756,946	
Liabilities, Surplus, and Other Funds		$31,978,254

No change was made in the amounts reported by the Company in its 2008 annual statement.

Since the last examination conducted as of December 31, 2003, the Company's admitted assets have increased $237,302, its total liabilities have decreased $1,601,115, and its surplus as regards policyholders has increased $1,838,417.

In addition to the undersigned Examiner in Charge, Carole Kessel, CPA, Chief Examiner of the North Dakota Insurance Department, Joe Detrick, CISA, AES, CFE, and Mike Mayberry, FSA participated in this examination.

Respectfully submitted,

Robert H. Moore

Robert H. Moore, CFE
Representing the State of North Dakota
Midwestern Zone (III), NAIC

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company recalculate the profit sharing payments for each year under examination in adherence with the provisions of the Profit Sharing Agreement, submit the recalculation schedules to the Insurance Department for review and approval, and collect reimbursement for any overpayments paid to Noridian/NISI.

It is recommended that the Company's Board of Directors reconsider the Profit Sharing Agreement as to whether the benefits received and costs incurred by the Company reflect a fair value transaction and whether the percentages of net gains in excess of 50% paid under the existing Exhibit A (Noridian/NISI Portion of Net Gains) of the Agreement are fair and reasonable to the Company and its policyholders.

To mitigate the appearance of conflict in regard to affiliated agreements and transactions, it is recommended that:

- Three of the eight director positions on the Board should be held by persons with no affiliation with Noridian or its affiliated entities.
- The directors with dual roles and responsibilities to affiliated entities abstain from voting on affiliated agreements and transactions.
- The unaffiliated directors on the Board should review and reaffirm on a yearly basis any existing affiliated agreements and transactions.

It is recommended that the Company comply with strict adherence to the requirements of the holding company statutes and rules.

It is recommended that the statutes of North Dakota be followed regarding approval of insurance policies.

It is recommended that the Board fix and/or approve the salaries as required by the Bylaws.

It is recommended that the trust documents be located and reviewed to ensure all obligations of the Company have been met. If they cannot be located, then the Company should take the necessary steps to recreate the instruments and then ensure all terms of the trust instruments are met. It is also recommended the Company improve its record keeping.

It is recommended that the Company locate the BPA Agreement and ensure payments and services are in conformity with the agreement. If it cannot be located, then another agreement should be prepared. It is also recommended the Company improve its record keeping.