

**LINCOLN INSURANCE SERVICES LIMITED**  
**DIRECTOR'S REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**



# **LINCOLN INSURANCE SERVICES LIMITED**

## **DIRECTOR'S REPORT**

### **FINANCIAL STATEMENTS**

The Director presents his report and audited financial statements for the year ended 31 December 2015.

### **PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The principal activity of the Company was the provision of management and administrative services to Lincoln National (UK) PLC group companies. However, the Company has not traded since 29 September 2009. The Company remains the Sponsor of the Lincoln Staff Benefits Plan, a final salary pension plan. While liabilities exceeded assets at 31 December 2014, a capital contribution was made in January 2015. This reversed the position and the balance sheet is expected to continue to be positive going forward. The Director feels it is, therefore, appropriate to produce accounts on a going concern basis.

### **FUTURE DEVELOPMENTS**

The Director does not anticipate that the Company or its subsidiary undertaking will recommence trading in the near future.

### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to £401,000 (2014: £443,000 loss) and no dividend has been paid (2014: nil).

### **DETAILS OF THE DIRECTORS**

The director of the Company during the year was:

J G Arko

### **RISK MANAGEMENT**

The most significant risk is the exposure to the final salary pension plan. The Company and its parent company retain professional advisers to help manage this risk which is also included in the parent company's risk management processes. The parent company has agreed to support the Company to meet its liabilities to the final salary pension plan.

### **DISCLOSURE OF INFORMATION TO THE AUDITORS**

So far as the Director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of former directors and the Company's auditor, the Director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### **AUDITORS**

Pursuant to Section 386 of the Companies Act 1985, the Company passed an elective resolution on 25 July 1994 to dispense with the obligation to reappoint auditors annually.

By Order of the Board



J G Arko, Director  
9 September 2016

## **LINCOLN INSURANCE SERVICES LIMITED**

5

### **STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 102). Under company law the Director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Group and the Company and the profit or loss of the group for that period.

In preparing these financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT**  
**To the members of**  
**LINCOLN INSURANCE SERVICES LIMITED**

We have audited the financial statements of Lincoln Insurance Services Limited for the year ended 31 December 2015 which comprise the Statement of Consolidated Comprehensive Income, the Consolidated and Parent Statement of Financial Position and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Director's Responsibilities Statement set out on page 2, the Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the Director's Report and Financial Statements to identify any material inconsistencies with the audited financial statements and to identify information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

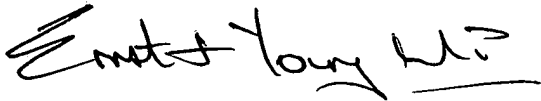
In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT**  
**To the members of**  
**LINCOLN INSURANCE SERVICES LIMITED**  
(continued)

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', with a horizontal line underneath.

Richard Page (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol

14 September 2016

**LINCOLN INSURANCE SERVICES LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<u>Note</u>	2015 <u>£000</u>	2014 <u>£000</u>
Restricted net interest on the defined benefit pension asset		96	66
Administrative expenses		<u>(497)</u>	<u>(509)</u>
Operating loss		(401)	(443)
Taxation	4	-	-
Loss for the financial year after taxation		<u>(401)</u>	<u>(443)</u>
Other Comprehensive Income			
Remeasurement loss recognised on defined benefit pension plan	3	(5,596)	(3,066)
Total comprehensive loss for the year		<u>(5,997)</u>	<u>(3,509)</u>

The loss after tax dealt with in the accounts of the Company amounts to £401k (2014: £443k loss).

**LINCOLN INSURANCE SERVICES LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015**

	<u>Note</u>	<u>2015</u> <u>£000</u>	<u>2014</u> <u>£000</u>
<b>CURRENT ASSETS</b>			
Prepayments	6	619	-
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors	7	(24)	(446)
<u>Total net assets</u>		<u>595</u>	<u>(446)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8,9	4,290	4,290
Additional capital contribution		10,401	3,363
Profit and loss account	9	(14,096)	(8,099)
<u>Equity shareholders' funds</u>		<u>595</u>	<u>(446)</u>

Approved at a meeting of the Board of Directors on 9 September 2016 and signed on its behalf.

  
J G Arko, Director  
9 September 2016

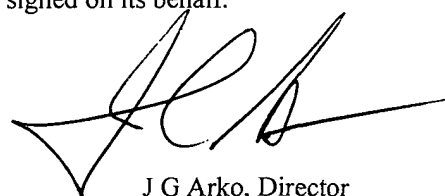
**LINCOLN INSURANCE SERVICES LIMITED**

**COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015**

**COMPANY NUMBER 1814420**

	<u>Note</u>	<u>2015</u> <u>£000</u>	<u>2014</u> <u>£000</u>
<b>CURRENT ASSETS</b>			
Prepayments	6	619	-
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors	7	(24)	(446)
<u>Total net assets</u>		<u>595</u>	<u>(446)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8,9	4,290	4,290
Additional capital contribution		10,401	3,363
Profit and loss account	9	(14,096)	(8,099)
<u>Equity shareholders' funds</u>		<u>595</u>	<u>(446)</u>

Approved at a meeting of the Board of Directors on 9 September 2016 and signed on its behalf.



J G Arko, Director  
9 September 2016



**LINCOLN INSURANCE SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**1. ACCOUNTING POLICIES**

**a) Basis of accounting**

The financial statements have been prepared on the going concern basis. While liabilities exceeded assets at 31 December 2014, a capital contribution was made in January 2015. This reversed the position and the balance sheet is expected to continue to be positive going forward.

The financial statements are prepared on the historical cost basis of accounting and in accordance with applicable accounting standards.

The group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 December 2015. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

The Group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 December 2015. An explanation of how transition to FRS 102 with effect from 1 January 2014 has affected the reported financial position and financial performance is given in note 12.

**b) Interest receivable**

Interest is credited on a receivable basis.

**c) Investments in Group Undertakings**

The Company's investments in group undertakings are shown at cost less amounts repaid and written off.

**d) Pension costs**

Lincoln in the UK operated various final salary pension plans until April 1997 when they were all merged with the Lincoln Staff Benefits Plan (the Plan). The Plan is established under trust and was a contributory plan. It provides death and pension benefits based on final pensionable salary. The assets of the Plan are held by a custodian bank and are invested in a range of assets designed to match the movements in the liabilities of the Plan.

For defined benefit plans the amount charged to operating profit is the cost of accruing benefits contractually obligated to employees over the year plus any benefit improvements granted to members by the Lincoln group during the year. The profit and loss account includes a credit equivalent to the Company's expected return on the pension plan's assets over the year, offset by a charge equal to the expected increase in the plans' liabilities over the year. The difference between the market value of the plans' assets and the present value of the plans' liabilities would be disclosed as an asset or liability on the balance sheet, net of deferred tax (to the extent that it is recoverable) except that at the balance sheet date the plan is closed to future accrual and hence has not been recorded. Any differences between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the plans, are recognised in the statement of total recognised gains and losses.

**LINCOLN INSURANCE SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(continued)

**2. ADMINISTRATIVE EXPENSES**

	2015 £000	2014 £000
Administrative expenses of the Company include the following:		
Auditors' remuneration	8	8

**3. PENSION PLANS**

- a) The Lincoln Staff Benefits Plan (the Plan) is a final salary plan which no longer has any active members.
- b) The last triennial valuation carried out by the Actuary to the plan was carried out at 5 April 2014. The Company agreed to make contributions of £7.0m to the Plan in 2015 including the cost of administration (2014: £3.5m) and estimates that there will be no contributions in 2016 based on the agreed contribution schedule.
- c) Mortality is assumed to follow the standard table S2PMA Light with a scaling factor of 108% for males and the standard table S2PFA Light with a scaling factor 91% for females. Improvements are in line with CMI 2013 core projections with a long term trend rate of 1.5% rebase to 2007.
- d) The prior year figures previously reported under FRS17 have been restated so as to be consistent with FRS102. The key impacts of this restatement are as follows:

- The pension expense items for 'interest cost' and 'expected return on assets' have been replaced with a single 'net interest on the net defined benefit liability (asset)' item. As part of this, the 'expected return on assets' item has been replaced with an 'interest income on plan assets' item, calculated using the discount rate at the start of the year; and
- Different adjustments are applied to reflect the surplus restriction

The financial assumptions used at 31 December were:

	31 Dec 2015	31 Dec 2014
Discount rate (p.a.)	3.60%	3.50%
RPI inflation (p.a.)	3.05%	3.20%
CPI inflation (p.a.)	2.05%	2.00%
Deferred Revaluation (in excess of GMP)	2.05%	2.00%
Pension increases in payment (in excess of GMP):		
- for service to 5 April 1997	3.00%	3.00%
- for service from 6 April 1997	2.00%	2.00%
Life expectancy at 65 for male aged 65	23.3	23.2
Life expectancy at 65 for female aged 65	25.8	25.6
Life expectancy at 65 for male aged 45	25.4	25.2
Life expectancy at 65 for female aged 45	28.1	27.9

**LINCOLN INSURANCE SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(continued)

**Balance Sheet position as at 31 December**

	31 Dec 2015 £000	31 Dec 2014 £000
Fair value of plan assets at end of year	264,781	273,576
Present value of defined benefit obligations at end of year	(252,800)	(257,600)
Funded status at end of year	11,981	15,976
Amount not recognised as asset under FRS102	(11,981)	(15,976)
Net defined benefit obligation	-	-

As the Plan is closed to new accruals, the surplus is not recognised as an asset in the balance sheet of the Company.

The following table provides information on the broad composition and fair value of assets of the plan

	2015 %	2014 %
Equities and alternative growth assets	61	53
Debt Securities	43	50
Other – Swap instruments	(4)	(3)
Total	100	100

**Reconciliation of fair value of assets  
During the year:**

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Fair value of Plan assets at beginning of year	273,576	229,049
Interest income on Plan assets	9,490	10,050
Return on Plan assets in excess of interest income	(13,374)	40,941
Contribution by the employer	5,989	3,501
Benefits paid	(10,411)	(9,464)
Administration expenses	(489)	(501)
Fair value Plan assets at end of year	264,781	273,576

**Reconciliation of fair value of benefit obligations  
During the year:**

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Present value of obligations at beginning of year	257,600	225,600
Interest cost	8,835	9,831
Actuarial (gain)/loss	(3,224)	31,633
Benefits paid	(10,411)	(9,464)
Present value of obligations at end of year	252,800	257,600

**LINCOLN INSURANCE SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(continued)

<b>Amounts recognised in the Profit and Loss</b>	<b>Year ended</b>	<b>Year ended</b>
<b>During the year:</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>£000</b>	<b>£000</b>
Administration expenses	489	501
Net interest on the net defined benefit asset	(655)	(219)
Interest cost on adjustment for limit in FRS102 paragraph 28.22	559	153
<b>Total expense recognised in the profit and loss</b>	<b>393</b>	<b>435</b>
<b>Remeasurement effects recognised in other comprehensive income (OCI)</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>£000</b>	<b>£000</b>
Loss/(Gain) on assets excluding interest income	13,374	(40,941)
Experience loss on liabilities	-	733
Actuarial (Gain)/Loss on change of assumptions	(3,224)	30,900
Effect of curtailment	(4,554)	12,374
<b>Total loss recognised in OCI</b>	<b>5,596</b>	<b>3,066</b>

**4. TAXATION**

**a) Factors affecting current tax charge for the period:**

The tax charge for the year is based on the effective United Kingdom rate of corporation tax for the year of 20.25% (2014: 21.50%).

The prior year figures previously reported under FRS17 have been restated so as to be consistent with FRS102. The tax charge for the year differs from the effective UK rate of corporation tax and the difference is explained below.

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
(Loss)/Profit on ordinary activities before tax	(401)	(443)
Corporation tax at 20.25% (2014: 21.50%)	81	95
<b>Effects of:</b>		
Income not deductible for tax purposes	1,132	660
Post cessation losses not recognised for deferred tax purposes	(1,213)	(755)
	(81)	(95)
<b>Current tax charge for the period</b>	<b>-</b>	<b>-</b>

**b) Deferred Tax**

As it is not anticipated that the Company will have any future taxable profits, there are unrecognised deferred tax assets of £3,573,000 (2014: £2,373,000) relating to post cessation losses.

**LINCOLN INSURANCE SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(continued)

**5. INVESTMENTS IN GROUP UNDERTAKINGS**

The Company's investment in group undertakings are shown at cost less amounts repaid and written off. The wholly owned subsidiary undertaking is as follows:

<u>Subsidiary</u>	<u>Principal Activities</u>
Lincoln SBP Trustees Limited	Dormant

**6. PREPAYMENTS**

After the last triennial valuation at 5 April 2014 of the Pension Plan, the Company agreed to make a payment of £1,500k in 2015 to cover the expected administration of the plan from 6 April 2014 to 5 April 2017. The unused element of the payment at 31 December 2015 of £619k is shown as a prepayment.

**7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2015 <u>£000</u>	2014 <u>£000</u>
	Group and Company	Group and Company
Other creditors	16	8
Accruals	8	438
	<u>24</u>	<u>446</u>

**8. SHARE CAPITAL**

	2015 <u>£000</u>	2014 <u>£000</u>
Authorised		
29,200,000 ordinary shares of £1 each	<u>29,200</u>	<u>29,200</u>
Allotted, issued and fully paid		
4,290,000 ordinary shares of £1 each	<u>4,290</u>	<u>4,290</u>

**LINCOLN INSURANCE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
(continued)

9. RESERVES	Share capital	Profit and loss account	Total share- holders funds
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 January 2014	7,290	(4,590)	2,700
Loss attributable to members	-	(443)	(443)
Movement in Other Comprehensive Income	-	(3,066)	(3,066)
Additional capital contribution	363	-	363
Balance at 31 December 2014	<u>7,653</u>	<u>(8,099)</u>	<u>(446)</u>
Loss attributable to members	-	(401)	(401)
Movement in Other Comprehensive Income	-	(5,596)	(5,596)
Additional capital contribution	7,038	-	7,038
Balance at 31 December 2015	<u><u>14,691</u></u>	<u><u>(14,096)</u></u>	<u><u>595</u></u>

The additional capital was injected on 21 January 2015 and used to make a contribution to the Lincoln Benefits Plan (Note 3b). There are no rights or obligations associated with the capital contributions.

**10. RELATED PARTIES**

The Company avails itself of the exemption, provided in Financial Reporting Standard 8 for wholly owned subsidiaries, from disclosing details of transactions with group undertakings.

**11. ULTIMATE HOLDING COMPANY**

In the Director's opinion the ultimate holding company, controlling party, and the parent undertaking of the largest group of undertakings for which group accounts are prepared is Lincoln National Corporation, a company incorporated in Indiana, United States of America.

Copies of the accounts can be obtained from:

London Registrars plc  
Suite A  
6 Honduras Street  
London  
EC1Y 0TH

**LINCOLN INSURANCE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

(continued)

**12. TRANSITION TO FRS 102**

The effective date of the transition to FRS 102 was 1 January 2014. There are no transitional adjustments but there is a presentation change under FRS 102 whereby net interest on the net defined benefit pension liability is presented in the profit and loss account using the liability discount rate. Under previous UK GAAP the interest on the expected return on net assets was calculated using an expected asset return discount rate. This had no impact on shareholders' equity on transition but affects the allocation of interest between the profit and loss account and other comprehensive income.

	2015 <u>£000</u>	2014 <u>£000</u>
Amount not recognised as an asset under FRS 17 at 1 January	15,976	3,449
Interest income on unrecognised asset	559	153
Adjustment for (shortfall)/excess of interest to expected return	(4,554)	12,374
Amount not recognised as asset under FRS102 at 31 December	<u>11,981</u>	<u>15,976</u>

Paragraph 28.22 of FRS 102 indicates that a company can only recognise a plan surplus as a defined benefit plan asset to the extent it is able to recover the surplus either through a reduction in future contributions or from refunds of previous contributions. As the Company does not have such a right, no surplus has been recognised in the financial statements.