

LONHAM GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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COMPANIES HOUSE

Registered number: 01679607

Registered office: Plantation Place, 30 Fenchurch Street, London EC3M 3AD

LONHAM GROUP LIMITED

STRATEGIC REPORT

The Directors present their strategic report of Lonham Group Limited (the Company) for the year ended 31 December 2017.

Principal activity

The Company's principal activity is to act as an agent in underwriting insurance risks.

On 30 October 2015, the Company was acquired by Chaucer Syndicates Limited, a UK registered subsidiary of The Hanover Insurance Group, Inc.

Results and dividends

The profit for the financial year was £191,282 (2016: £444,660). The Company did not pay an interim dividend in 2017 (2016: £nil). The Directors have proposed a final dividend of £1,000,000 for the financial year ended 31 December 2017 (2016: £nil).

Principal risks and uncertainties

Credit risk

The Company's principal risks relate to credit exposures on its trade debtors as well as retention risk associated with key employees.

Approved by the Board of Directors on 21 June 2018 and signed on its behalf by

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a series of loops and a long horizontal stroke.

J Fowle
Director

LONHAM GROUP LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Lonham Group Limited for the year ended 31 December 2017.

Directors and their interests

The Directors, as set out below, held office throughout the year and up to the date of signing the financial statements.

M J Ayres
R J Callan
J Fowle

No Director had any interest in the voting share capital of the Company at any time during the year.

During the period from 1 January 2017 to (and including) the date of approval of this report, the Company provided its Directors and Officers with a qualifying third party indemnity, and cover under a Directors and Officers insurance policy taken out by The Hanover Insurance Group, Inc.

Company secretary

R N Barnett

Registered office

Plantation Place
30 Fenchurch Street
London EC3M 3AD

Registered number

01679607

Independent Auditors

PricewaterhouseCoopers LLP, London

Ultimate parent company

The Hanover Insurance Group, Inc.

Going concern basis

No material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

LONHAM GROUP LIMITED

DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

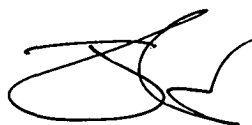
In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at The Hanover Insurance Group Inc. Audit Committee Meeting.

Approved by the Board of Directors on 21 June 2018 and signed on its behalf by



J Fowle
Director

LONHAM GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONHAM GROUP LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Lonham Group Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the Statement of Comprehensive Income for the year ended 31 December 2017; the Statement of Financial Position as at 31 December 2017; and the Statement of Changes in Shareholder's Equity for the year ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion. or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

LONHAM GROUP LIMITED

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

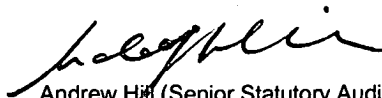
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Andrew Hill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 June 2018

LONHAM GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
Turnover	3	1,269,053	1,564,462
Administrative expenses		(1,079,593)	(1,122,418)
Operating profit	4	189,460	442,044
Interest receivable and similar income		1,822	2,616
Profit on ordinary activities before taxation		191,282	444,660
Tax on profit on ordinary activities	7	-	-
Total comprehensive income for the year		191,282	444,660

All amounts relate to continuing operations.

LONHAM GROUP LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

Registered Number: 01679607

	Notes	2017 £	2016 £
Fixed assets			
Tangible assets	8	49,943	59,407
Current assets			
Debtors	9	180,414	1,003,430
Cash at bank		2,112,124	1,659,119
		<u>2,292,538</u>	<u>2,662,549</u>
Creditors: amounts falling due within one year	10	<u>(744,335)</u>	<u>(1,315,092)</u>
Net current assets		<u>1,548,203</u>	<u>1,347,457</u>
Net assets		<u>1,598,146</u>	<u>1,406,864</u>
Capital and reserves			
Called up share capital	11	100	100
Capital redemption reserve		10,000	10,000
Retained earnings		<u>1,588,046</u>	<u>1,396,764</u>
Total equity		<u>1,598,146</u>	<u>1,406,864</u>

The financial statements on pages 6 to 13 were approved by the Board of Directors on 21 June 2018 and were signed on its behalf by:



R J Callan
Director

LONHAM GROUP LIMITED

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

Notes	Called up share capital £	Capital redemption reserve £	Retained earnings £	Total £
Balance as at 1 January 2016	100	10,000	952,104	962,204
Total comprehensive income for the year	-	-	444,660	444,660
Balance as at 31 December 2016	100	10,000	1,396,764	1,406,864
Balance as at 1 January 2017	100	10,000	1,396,764	1,406,864
Total comprehensive income for the year	-	-	191,282	191,282
Balance as at 31 December 2017	100	10,000	1,588,046	1,598,146

LONHAM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Basis of preparation

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable UK law and accounting standards (UK GAAP). The Company is wholly-owned by a member of The Hanover Insurance Group, Inc. (THG), a company incorporated and registered in the United States of America (Note 12), and is included in the consolidated financial statements of THG, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102 and the exemption from the obligation to prepare and deliver group financial statements under section 401 of the Companies Act 2006.

The financial statements present information about the individual entity and not as a group. The Company is also exempt under the terms of FRS 102 from disclosing related-party transactions with the ultimate parent company or any of its wholly owned subsidiaries.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Turnover

The turnover in the profit and loss account represents:

- i) Insurance commission earned in the year. This is calculated based on the policies which have been invoiced in the year.

Where the company receives revenue which is related to the underlying underwriting profits on policies written or sold, this is only recognised in the period in which the right to the consideration is achieved and the final amount can be easily measured.

- ii) Income, receivable from Chaucer Syndicates Limited, calculated as 105% of expenses incurred for period January 2016 to 30th September 2016 and 110% of expenses incurred for periods 1st October 2016 to 31st December 2016 and 1st January 2017 to 31st December 2017, in line with the agreement between Lonham Group Limited and Chaucer Syndicates Limited.

b) Dividends

Dividends paid or declared during the year are recognised as a reduction in equity. Dividends declared after the balance sheet date but before the financial statements are authorised are not recognised but are disclosed in the notes to the financial statements.

c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. Depreciation is calculated to write-off the cost of tangible fixed assets over their estimated useful lives on a straight line basis as follows:

Freehold property	2.38% straight line
Fixtures and fittings	33.33% per annum
Office equipment	33.33% per annum

d) Cash at bank

Cash at bank on the Statement of Financial Position represent cash balances and money market fund deposits lodged with banks.

e) Foreign currencies

The Company's functional and presentation currency is Pound Sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

LONHAM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

f) Taxation

The tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable income for the year. Taxable profit differs from profit on ordinary activities as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates applicable at the balance sheet date.

g) Insurance debtors and creditors

Insurance brokers act as agents in placing the insurable risks of their clients with the insurers and, as such, are not liable as principals for amounts arising from such transactions. In recognition of this relationship, debtors from insurance broking transactions are not included as an asset of the Company. Other than receivable for fees and commissions earned on a transaction, no recognition of the insurance transaction occurs until the Company received cash in respect of premium or claims, at which time a corresponding liability in trade creditors is established in favour of the insurer or the client. In certain circumstances, the Company advances premiums, refunds or claims to insurance underwriters or clients prior collection. These advances are reflected in the Statement of Financial Position as part of trade receivables.

h) Trade receivables

Trade receivables are amounts due from customers for insurance broking services provided in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

i) Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

j) Employment benefits: pensions

The Company operates a defined contribution pension scheme. Payments to the defined contribution section are charged as expenses as they fall due.

3. Turnover

12.1% of the Company's turnover (2016: 12.6%) is attributable to geographic markets outside the United Kingdom.

4. Operating profit

	2017	2016
Operating profit is stated after charging:	£	£
Depreciation of tangible fixed assets (Note 8)	9,464	10,849
Pension costs	89,316	78,699

5. Auditors' remuneration

The auditors' remuneration in respect of the Company's financial statements for the year ended 31 December 2017 was £15,000 (2016: £15,000), which has been borne by a related group undertaking.

LONHAM GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)****6. Directors' emoluments and staff costs****Directors' emoluments**

	2017	2016
	£	£
Aggregate remuneration	121,107	119,419
Pension contributions	16,223	15,750

For the year to 31 December 2017 retirement benefits were accruing to one Director in respect of a defined contribution pension scheme.

No Directors participated in the Chaucer share incentive plan.

	2017	2016
	£	£
Number of Directors who were members of defined contribution pension scheme	1	1

Staff Costs

Employee information and information in relation to members:

	2017	2016
	£	£
Wages and Salaries	714,709	693,647
Social Security Costs	79,941	78,463
Other pension costs	89,316	78,699
The average monthly number of persons employed by the Company during the year	16	16

LONHAM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

7. Tax on profit on ordinary activities

	2017 £	2016 £
Current tax:		
UK corporation tax at 19.25% (2016: 20%)	-	-
Tax on profit on ordinary activities	-	-

Other factors affecting the tax charge for the year

The tax assessed for the year differs from (2016: differs from) that resulting from applying the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	191,282	444,660
Tax at 19.25% (2016: 20%)	36,822	88,932
Effects of:		
- Expenses not deductible for tax purposes in excess of capital allowances	2,439	1,964
- Group relief for nil consideration	(39,261)	(90,896)
Tax charge for the year	-	-

The financial statements reflect the tax rate reductions included in Finance Act 2013 to Finance Act 2016. Finance Act 2013 reduced the main rate of UK corporation tax from 23% to 21% effective from 1 April 2014; with a further reduction to 20% effective from 1 April 2015. Finance Act 2013 was substantively enacted and enacted in July 2013. Finance Act 2015 kept the main rate of UK corporation tax at 20% effective from 1 April 2016. Finance Act 2015 was substantively enacted and enacted in March 2015.

Finance (No. 2) Act 2015 reduced the main rate of UK corporation tax from 20.00% to 19.00% effective from 1 April 2017; with a further reduction to 18% effective from 1 April 2020. Finance (No. 2) Act 2015 was substantively enacted in October 2015 and enacted in November 2015. Finance Act 2016 reduced the main rate of UK corporation tax from 19% to 17% (rather than the previously enacted rate of 18%) effective from 1 April 2020. Finance Act 2016 was substantively enacted and enacted in September 2016. These tax rate changes will impact the current tax charge of the company in future periods.

8. Tangible assets

	Freehold Property £	Fixtures and fittings £	Total £
Cost:			
At 1 January 2017	300,610	165,490	466,100
Additions	-	-	-
Disposals	-	-	-
At 31 December 2017	300,610	165,490	466,100
Accumulated depreciation:			
At 1 January 2017	251,324	155,369	406,693
Charge	2,143	7,321	9,464
Disposals	-	-	-
At 31 December 2017	253,467	162,690	416,157
Net book value:			
At 31 December 2017	47,143	2,800	49,943
At 31 December 2016	49,286	10,121	59,407

LONHAM GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)****9. Debtors**

	2017 £	2016 £
Trade debtors	180,414	1,003,430
	<u>180,414</u>	<u>1,003,430</u>

10. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	473,854	992,120
Amounts owed to group undertakings	72,153	72,153
Corporation tax	-	-
Other taxation and social security	21,818	23,332
Pensions	13,200	-
Other creditors	100,000	100,000
Accruals and deferred income	63,310	127,487
	<u>744,335</u>	<u>1,315,092</u>

Trade creditors comprise £440,895 (2016: £954,917) owed to Chaucer Syndicates Limited for premiums received less claims payments agreed, less expenses recharged.

11. Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid:		
100 "A" ordinary voting shares of £1 each	<u>100</u>	<u>100</u>

12. Ultimate parent company

The largest and smallest group of undertakings for which group accounts are prepared, and in which the results of the Company is included, is The Hanover Insurance Group, Inc. A copy of the most recent consolidated financial statements is available from the website of The Hanover Insurance Group, Inc (www.hanover.com).

13. Subsequent event

On 21 June 2018, the Directors of the Company declared a final dividend of £1,000,000 to be paid to those shareholders in the register of members of the Company.