

**STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
FOR
HEATH LAMBERT LIMITED**

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HEATH LAMBERT LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2016**

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HEATH LAMBERT LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016**

DIRECTORS: J Drummond-Smith (Non-Executive)
M Rea
C Richmond
I Story

SECRETARY: W McGowan

REGISTERED OFFICE: The Walbrook Building
25 Walbrook
London
EC4N 8AW

REGISTERED NUMBER: 01199129 (England and Wales)

INDEPENDENT AUDITOR: Ernst & Young LLP
Statutory Auditor
25 Churchill Place
Canary Wharf
London
E14 5EY

HEATH LAMBERT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their Strategic Report for the year ended 31 December 2016.

REVIEW OF BUSINESS

The principal activity of the Company in the period under review was that of insurance broking.

As part of the continuing Group reorganisation, the Company hived-up several businesses to Arthur J. Gallagher Insurance Brokers Limited during the year ended 31 December 2016. The most significant of these were the Commercial Affinities, George Burrows and Holiday Homes businesses. The Company plans to transfer its remaining businesses to other Group companies in the coming years.

The Company is a wholly owned subsidiary of Arthur J. Gallagher & Co., a company incorporated in the United States of America and is included in the publicly available consolidated financial statements of Arthur J. Gallagher & Co. ("the Group"). The Group's strategic focus continues to be on the organic growth of existing core business and the acquisition of businesses to enhance future turnover and profitability.

The results of the Company for the year ended 31 December 2016 are set out in the financial statements on pages 7 to 21.

For the year ended 31 December 2016, the Continuing Business of the Company recorded turnover of £8,811k, a decrease from prior year of £975k (9%), and a profit before tax of £956k, an increase over prior year of £533k (126%). During the year the Company received a gift of £15,000k from its immediate parent Friary Intermediate Limited in order to improve the Company's distributable reserves.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's international operations and debt profile expose it to a variety of financial risks including the effects of change in foreign currency exchange rates, counterparty credit risks, compliance risks, liquidity and interest rates. The Group's Board of Directors are responsible for setting the Group's risk appetite and ensuring that it has an appropriate and effective risk management framework and monitors the ongoing process for identifying, evaluating, managing, and reporting significant risks faced. To facilitate this, the Group maintains a risk framework, through which the key risks affecting the Group are identified, assessed and monitored.

The Group has in place a risk management programme and policies in the context of the wider Group risk framework. This risk management programme seeks to manage any adverse impact upon the Group caused by the nature of its principal activity. The approach to the significant risks is noted below:

Borrowing facilities and liquidity risk

Operations for the Group are financed by a mixture of shareholders' funds, external borrowing facilities, inter-group borrowings and cash reserves. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Forward looking cash flow projections are prepared on a regular basis to assess funding requirements.

Foreign currency risk

The Group's major currency transaction exposure arises in respect of transactions with fellow group undertakings and foreign currency revenue earned in the UK. As a consequence, the Group's results are sensitive to changes in foreign currency exchange rate.

Interest rate risk

Interest rates on the Group's formal intra-group loans are fixed in nature and set in accordance with the wider Group treasury and transfer pricing policies.

Counterparty credit risk

The Group is exposed to credit related losses in the event of non-performance by counterparties to financial assets but mitigates such risk through its policy of selecting only counterparties with high credit ratings or ranging beneficial credit terms in accordance with the Group's investment and counterparty policy.

HEATH LAMBERT LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

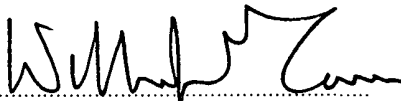
Compliance risk

The Group is exposed to regulatory risk from the potential failure to comply with the relevant laws and regulations for insurance intermediaries. To mitigate this, the Group has a risk and compliance function and a control framework that has been rolled out and embedded within the culture throughout the Group to reduce the risk of non-compliance. This includes regular assessment and monitoring of the compliance and regulatory requirements, with regular reporting to the UK Risk Committee and Board of Directors, and the Group has a proactive, open relationship with the regulator.

Operational risk

The Group has identified the key operational risks to which it is exposed, principle among which are errors or omission leading to the incorrect placement of client insurances, the protection of client information, and compliance with regulations. An appropriate control framework has been deployed to manage and mitigate these key operational risks.

BY ORDER OF THE BOARD:



.....
W McGowan - Secretary

Date: 18/9/2017

HEATH LAMBERT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2016. The results for the Company for the year ended 31 December 2016 and future developments are discussed in the Strategic Report.

DIRECTORS OF THE COMPANY

The Directors who have held office during the period from 1 January 2016 to the date of this report are as follows:

J Drummond-Smith (Non-Executive)
M Rea
C Richmond
I Story

Other changes in Directors holding office are as follows:

G Chilton - resigned 24 August 2016

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2016 (2015: £nil).

EVENTS AFTER THE REPORTING PERIOD

Information relating to events after the reporting period is given in the notes to the financial statements.

EMPLOYEES

The Company is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, age or disability.

DIRECTORS' INDEMNITY PROVISIONS

The Directors have benefited from qualifying third party indemnity provisions during the financial year and to the date of this report.

DIRECTORS' RESPONSIBILITIES STATEMENT

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 elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 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.

HEATH LAMBERT LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

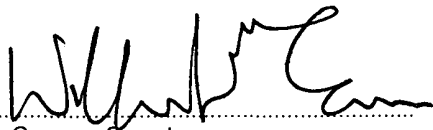
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has 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 auditor is aware of that information.

AUDITOR

The auditor, Ernst & Young LLP, will be proposed for re-appointment in accordance with section 487(2) of the Companies Act 2006.

BY ORDER OF THE BOARD:



W McGowan - Secretary

Date: 18/9/2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEATH LAMBERT LIMITED

We have audited the financial statements of Heath Lambert Limited for the year ended 31 December 2016 which comprise of the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 21. 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), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are 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 and express an opinion on 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 Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any 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 Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable to the UK and Republic of Ireland"; 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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 financial statements are not in agreement with the account 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.

Ernst & Young LLP

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

Date: *19 September 2017*

HEATH LAMBERT LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

		2016	2016	2016
	Notes	Continuing	Discontinued	Total
		£'000	£'000	£'000
TURNOVER	2	8,811	5,322	14,133
Administrative expenses		<u>(8,393)</u>	<u>(9,671)</u>	<u>(18,064)</u>
OPERATING PROFIT/(LOSS)	5	418	(4,349)	(3,931)
Interest receivable and similar income	6	645	-	645
Interest payable and similar expenses	7	<u>(107)</u>	<u>-</u>	<u>(107)</u>
PROFIT/(LOSS) BEFORE TAXATION		956	(4,349)	(3,393)
Tax on profit/(loss)	8	<u>(98)</u>	<u>427</u>	<u>329</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		858	(3,922)	(3,064)
OTHER COMPREHENSIVE INCOME		-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>858</u>	<u>(3,922)</u>	<u>(3,064)</u>

DISCONTINUED OPERATIONS

The Company hived several businesses to Arthur J. Gallagher Insurance Brokers Limited, a fellow Group subsidiary, during the year ended 31 December 2016. The most significant of these were the Commercial Affinities, George Burrows and Holiday Homes business units. These were transferred in February, September and December 2016 respectively. In January 2017 the Brand Partners business was hived to Arthur J. Gallagher Insurance Brokers Limited from the Company, and in March 2017 the Think business was hived to Pen Underwriting Limited.

The prior year Statement of Comprehensive Income has been restated to show the businesses as discontinued on page 8.

HEATH LAMBERT LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2015 Continuing £'000	2015 Discontinued £'000	2015 Total £'000
TURNOVER	2	9,786	16,673	26,459
Administrative expenses		<u>(10,001)</u>	<u>(24,887)</u>	<u>(34,888)</u>
		(215)	(8,214)	(8,429)
Other operating income		-	158	158
		<u> </u>	<u> </u>	<u> </u>
OPERATING LOSS	5	(215)	(8,056)	(8,271)
Interest receivable and similar income	6	724	-	724
Interest payable and similar expenses	7	<u>(86)</u>	<u>-</u>	<u>(86)</u>
PROFIT/(LOSS) BEFORE TAXATION		423	(8,056)	(7,633)
Tax on profit/(loss)	8	<u>(20)</u>	<u>384</u>	<u>364</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		403	(7,672)	(7,269)
OTHER COMPREHENSIVE INCOME		-	-	-
		<u> </u>	<u> </u>	<u> </u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>403</u>	<u>(7,672)</u>	<u>(7,269)</u>

DISCONTINUED OPERATIONS

The Company hived several businesses to Arthur J. Gallagher Insurance Brokers Limited, a fellow Group subsidiary, during the year ended 31 December 2016. The most significant of these were the Commercial Affinities, George Burrows and Holiday Homes business units. These were transferred in February, September and December 2016 respectively. In January 2017 the Brand Partners business was hived to Arthur J. Gallagher Insurance Brokers Limited from the Company, and in March 2017 the Think business was hived to Pen Underwriting Limited.

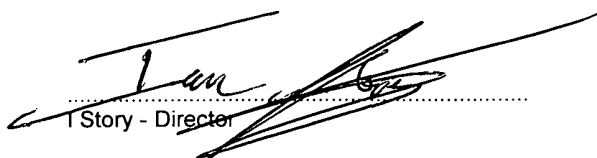
In 2015, a high volume of the Company's retail business units were transferred along with the Credit Renewal & Surety business. These also transferred to Arthur J. Gallagher Insurance Brokers Limited.

HEATH LAMBERT LIMITED (REGISTERED NUMBER: 01199129)

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2016

	Notes	£'000	2016 £'000	£'000	2015 £'000
FIXED ASSETS					
Intangible assets	9		3,081		4,676
Tangible assets	10		147		276
Investments	11		<u>1,088</u>		<u>1,088</u>
			4,316		6,040
CURRENT ASSETS					
Debtors	12	91,245		54,745	
Cash at bank	13	<u>13,687</u>		<u>34,255</u>	
		104,932		89,000	
CREDITORS					
Amounts falling due within one year	14	<u>76,552</u>		<u>71,735</u>	
NET CURRENT ASSETS			<u>28,380</u>		<u>17,265</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			32,696		23,305
CREDITORS					
Amounts falling due after more than one year	15		152		96
PROVISIONS FOR LIABILITIES	17		<u>3,464</u>		<u>6,065</u>
NET ASSETS			<u>29,080</u>		<u>17,144</u>
CAPITAL AND RESERVES					
Called up share capital	18		19,000		19,000
Retained earnings	19		<u>10,080</u>		<u>(1,856)</u>
SHAREHOLDERS' FUNDS			<u>29,080</u>		<u>17,144</u>

The financial statements were approved and authorised for issue by the Board of Directors on 18/19/2017 and were signed on its behalf by:


.....
Ian Story - Director

The notes form part of these financial statements

HEATH LAMBERT LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	12,000	5,413	17,413
Changes in equity			
Issue of share capital	7,000	-	7,000
Total comprehensive loss	-	(7,269)	(7,269)
Balance at 31 December 2015	<u>19,000</u>	<u>(1,856)</u>	<u>17,144</u>
Changes in equity			
Capital contribution from fellow group undertaking	-	15,000	15,000
Total comprehensive loss	-	(3,064)	(3,064)
Balance at 31 December 2016	<u>19,000</u>	<u>10,080</u>	<u>29,080</u>

The notes form part of these financial statements

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES

Accounting convention

These financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", and with the Companies Act 2006. The financial statements have been prepared on a going concern basis, under the historical cost convention.

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.

Basis of preparation

The Company has taken advantage of Section 401 of the Companies Act 2006 in not preparing consolidated financial statements on the basis that the results of the Company are included within the consolidated financial statements of Arthur J. Gallagher & Co., a company incorporated in the United States of America and for which results are publicly available from the Company's registered office.

The Company has also taken advantage of the exemptions, under FRS 102 paragraph 1.12(b) & (e) respectively, from preparing a Statement of Cash Flows and disclosure of key management compensation, on the basis that it is a qualifying entity and its ultimate parent company, Arthur J. Gallagher & Co., includes such disclosures in its own consolidated financial statements.

Significant judgements and estimates

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

i. Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

ii. Impairment of debtors

The Group makes an estimate of the recoverable value of trade debtors. When assessing impairment of trade debtors, management have considered an appropriate formula for calculating the bad debt provision based on the ageing of the trade debtors.

iii. Goodwill and intangible fixed assets

The Group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

iv. Impairment of investments

Where there are indicators of impairment of individual assets, the Group performs impairment tests based on a value in use calculation. The value in use calculation is based on a net asset or revenue multiple basis. Both methods are derived from the financial statements and do not include restructuring activities that the Group is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The multiple rate used is in line with recent acquisitions.

v. Provisions

Where a provision is required the Group will perform calculations based on a policy regarding each individual category of provision. Each of these policies will be based on a degree of estimate and judgements. These policies are included within note 17.

vi. Supplemental commission

The Group performs an estimation in ascertaining the year-end accrued supplemental commission income not yet billed. Supplemental commission is recognised when an agreement is in place with a panel of insurance carriers. Management have considered the appropriate formulae for calculating the year-end accrual based on analysis of transactions subject to the insurance service agreements, which are amended as necessary to reflect previous experience with the estimate.

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

Turnover

Turnover represents brokerage and fees associated with placing insurance and reinsurance contracts. It is recognised net of commission payable and allowable discounts. It is recognised at the later of inception date and the date the placement is completed and confirmed.

Interest receivable/payable

Interest receivable/payable is recognised in the Statement of Comprehensive Income on an accruals basis based on the terms of the underlying contracts or agreements.

Operating Leases

Rentals under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Benefits received and receivable as an incentive to sign an operating lease are also recognised on a straight line basis over the period of the lease.

Taxation

Provision is made at current enacted rates for taxation. Deferred tax is recognised in respect of all timing difference that have originated but not reversed at the Statement of Financial Position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax in future periods.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax assets and liabilities are not discounted.

Discontinued operations

The Group recognises as discontinued operations components which have been disposed of which represent a separate major line of business or geographical area of operation, which were part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, or a subsidiary which was acquired exclusively for resale.

Goodwill and intangible fixed assets

Intangible fixed assets arising on the acquisition of teams, other business and software have been capitalised, classified as assets in the Statement of Financial Position and amortised over their useful economic lives. They are reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

Assets under construction are software development costs which meet the recognition criteria defined in FRS 102 section 18. These assets are included at cost. Once the assets become usable they are amortised over their useful economic lives. They are reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Goodwill	- over 10 years
Expiration lists	- over 5 years
Computer software	- up to 5 years

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES - continued

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line method based on the assets' useful lives.

The useful lives of the following tangible fixed assets are:

Leasehold improvements	- to lease expiration
Fixtures and fittings	- over 5 to 10 years
Computer equipment	- over 3 to 5 years

Fixed asset investments

Fixed asset investments in the financial statements are stated at cost less provision for any impairment in value.

Insurance broking debtors & creditors

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers. As such they are generally not liable as principals for the amounts arising from these transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities, respectively.

Debtors and creditors arising from a transaction between client and insurers (e.g. premiums, claims etc.) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and creditors.

The position of the insurance broker as agent means that generally the credit risk is borne by the principals. However there may be circumstances where the insurance broker acquires credit risk, through statute, or through the act or omission of the insurance broker or one of the principals. There is much legal uncertainty surrounding the circumstances and the extent of such exposure which, consequently, cannot be evaluated. The total of insurance broking debtors and creditors appearing in the Statement of Financial Position is therefore not an indication of credit risk.

It is normal practice for insurance brokers to settle accounts with other intermediaries, clients, insurers and market settlement bureaux on a net basis. Thus, large changes in insurance broking debtors and creditors can result from comparatively small cash settlements. For this reason, the totals of insurance broking debtors and creditors give no indication of future cash flows.

The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Offset of assets and liabilities should be recognised in financial statements where, and only where, the offset would survive the insolvency of the other party. Accordingly, only such offsets have been recognised in calculating insurance broking debtors and creditors.

Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Loans to/from group undertakings

Loans to/from other Group undertakings are initially recognised at transaction price, less any transactional costs unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest. In subsequent years the loans are carried at amortised cost, using the effective interest rate method.

Where loans are repayable on demand they are classified as short term debtors/creditors and recognised at the full amount payable. The loans are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled.

Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the date of the Statement of Financial Position. All exchange rate differences are taken to the Statement of Comprehensive Income.

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

2. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the Company.

An analysis of turnover by class of business is given below:

	2016 £'000	2015 £'000
Net Brokerage	11,927	23,716
Commission	778	538
Fees	<u>1,428</u>	<u>2,205</u>
	<u>14,133</u>	<u>26,459</u>

An analysis of turnover by geographical market is given below:

	2016 £'000	2015 £'000
United Kingdom	14,044	25,810
Europe	87	378
Asia and Australasia	1	11
The Americas	<u>1</u>	<u>260</u>
	<u>14,133</u>	<u>26,459</u>

3. STAFF COSTS

Staff costs were incurred by Arthur J. Gallagher Services (UK) Ltd and recharged to the Company. An amount of £8,276k (2015 - £21,793k) was recharged to the Company and is accounted for in administrative expenses.

4. DIRECTORS' EMOLUMENTS

	2016 £'000	2015 £'000
Directors' remuneration	204	472
Directors' pension contributions to money purchase schemes	<u>1</u>	<u>3</u>
	<u>205</u>	<u>475</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>1</u>	<u>5</u>
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The amounts in respect of the highest paid Director are:

Director's remuneration	<u>138</u>	<u>181</u>
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The above amounts represent remuneration allocated to the Directors based on their directorships of entities within the Group. This is on a different basis to which Directors' emoluments are recharged to the Company and accounted for in administrative expenses.

HEATH LAMBERT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

5. OPERATING LOSS

The operating loss is stated after charging:

	2016	2015
	£'000	£'000
Operating leases - land and buildings	1,535	3,387
Depreciation - owned assets	126	305
Goodwill amortisation	-	155
Expiration lists amortisation	377	411
Computer software amortisation	1,216	840
Provision for impairment	-	3,412
Auditor's remuneration		
- statutory audit	59	68
- audit related assurance services	27	15
Foreign exchange differences	<u>2,569</u>	<u>903</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016	2015
	£'000	£'000
Interest on loans to group undertakings	26	12
Other interest	<u>619</u>	<u>712</u>
	<u>645</u>	<u>724</u>

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2016	2015
	£'000	£'000
Bank interest	-	11
Interest on loans from group undertakings	<u>107</u>	<u>75</u>
	<u>107</u>	<u>86</u>

8. TAXATION

Analysis of the tax credit

The tax credit on the loss for the year was as follows:

	2016	2015
	£'000	£'000
Current tax:		
UK corporation tax	(1,021)	(784)
Adjustments in respect of prior years	<u>334</u>	<u>248</u>
Total current tax credit	<u>(687)</u>	<u>(536)</u>
Deferred tax:		
Origination and reversal of timing differences	521	(238)
Impact of tax rate change	96	331
Adjustments in respect of prior years	<u>(259)</u>	<u>79</u>
Total deferred tax charge	<u>358</u>	<u>172</u>
Total tax credit	<u>(329)</u>	<u>(364)</u>

HEATH LAMBERT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

8. TAXATION - continued

The tax credit for the year can be reconciled to the loss per the income statement as follows:

	2016	2015
	£'000	£'000
Loss before tax	<u>(3,393)</u>	<u>(7,633)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	(679)	(1,545)
Effects of:		
Expenses not deductible for tax purposes	73	763
Tax rate changes	96	330
Transfer pricing adjustments	46	(238)
Adjustments from previous periods	75	326
Transfer out of intangibles	42	-
Movement arising from the transfer of trade	<u>18</u>	<u>-</u>
Total tax credit	<u>(329)</u>	<u>(364)</u>

The Company losses are taxable in the UK under the standard rate of corporation tax being 20% (2015 20.25%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government legislated during 2016 to reduce the main rate of corporation tax to 19%, applicable from 1 April 2017 with a further reduction of 2% to 17% to apply from 1 April 2020. These reductions have been reflected in the closing deferred tax asset, as they were enacted at the date of the Statement of Financial Position.

9. INTANGIBLE FIXED ASSETS

	Goodwill	Expiration	Computer	Assets	Totals
	£'000	lists	software	under	£'000
	£'000	£'000	£'000	construction	£'000
	£'000	£'000	£'000	£'000	£'000
COST					
At 1 January 2016	322	2,055	6,050	1,720	10,147
Additions	-	440	-	910	1,350
Transfers in	-	-	2,660	-	2,660
Transfers out	<u>(322)</u>	<u>(2,055)</u>	<u>(3,108)</u>	<u>(2,630)</u>	<u>(8,115)</u>
At 31 December 2016	<u>-</u>	<u>440</u>	<u>5,602</u>	<u>-</u>	<u>6,042</u>
AMORTISATION					
At 1 January 2016	155	490	4,826	-	5,471
Amortisation for year	-	377	1,216	-	1,593
Transfers in	-	-	26	-	26
Transfers out	<u>(155)</u>	<u>(867)</u>	<u>(3,107)</u>	<u>-</u>	<u>(4,129)</u>
At 31 December 2016	<u>-</u>	<u>-</u>	<u>2,961</u>	<u>-</u>	<u>2,961</u>
NET BOOK VALUE					
At 31 December 2016	<u>-</u>	<u>440</u>	<u>2,641</u>	<u>-</u>	<u>3,081</u>
At 31 December 2015	<u>167</u>	<u>1,565</u>	<u>1,224</u>	<u>1,720</u>	<u>4,676</u>

HEATH LAMBERT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. INTANGIBLE FIXED ASSETS - continued

Individual intangible assets that are deemed material to the financial statements by the Directors comprise of:

Category	Asset	Carrying value	Remaining amortisation period
Computer software	Transactor	£2,234k	14 months

10. TANGIBLE FIXED ASSETS

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Totals £'000
COST				
At 1 January 2016	278	1,773	1,880	3,931
Additions	-	5	4	9
Transfers in	50	20	127	197
Transfers out	(22)	(25)	(868)	(915)
At 31 December 2016	<u>306</u>	<u>1,773</u>	<u>1,143</u>	<u>3,222</u>
DEPRECIATION				
At 1 January 2016	207	1,618	1,830	3,655
Charge for year	25	74	27	126
Transfers in	50	14	119	183
Transfers out	(15)	(25)	(849)	(889)
At 31 December 2016	<u>267</u>	<u>1,681</u>	<u>1,127</u>	<u>3,075</u>
NET BOOK VALUE				
At 31 December 2016	<u>39</u>	<u>92</u>	<u>16</u>	<u>147</u>
At 31 December 2015	<u>71</u>	<u>155</u>	<u>50</u>	<u>276</u>

11. FIXED ASSET INVESTMENTS

	Shares in group undertakings £'000
COST	
At 1 January 2016 and 31 December 2016	<u>23,750</u>
PROVISION FOR IMPAIRMENT	
At 1 January 2016 and 31 December 2016	<u>22,662</u>
NET BOOK VALUE	
At 31 December 2016	<u>1,088</u>
At 31 December 2015	<u>1,088</u>

The Company's investments at the Statement of Financial Position date, in the share capital of group undertaking, comprise the following:

Name of Company	Registered Address	Holding	Proportion of shares held
Heath Lambert Overseas Limited	The Walbrook Building	Ordinary Shares	100.00%
Gallagher Benefits Consulting Limited	The Walbrook Building	Ordinary Shares	100.00%
Lambert Fenchurch Overseas Limited*	The Walbrook Building	Ordinary Shares	100.00%
Fenchurch Faris Limited - Jordan*	Jordan Insurance Company Building No. B	Ordinary Shares	10.00%
Fenchurch Faris Limited - Saudi Arabia*	Jordan Insurance Company Building No. B	Ordinary Shares	14.00%

*held indirectly

HEATH LAMBERT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

11. FIXED ASSET INVESTMENTS – continued

Registered Address	Street Address
The Walbrook Building	25 Walbrook, London, EC4N 8AW
Jordan Insurance Company Building No. B	5th Floor, Office No. 4, Third Circle, Prince Mohammad Street, P.O. BOX 840371, Jabal Amman 11181, Amman, Jordan.

12. DEBTORS

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	13,599	18,668
Amounts owed by group undertakings	68,760	26,787
Other debtors	1,827	26
Corporation tax	1,064	3,098
Deferred tax asset	2,782	3,140
Prepayments and accrued income	<u>144</u>	<u>2,128</u>
	<u>88,176</u>	<u>53,847</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	3,069	215
Prepayments and accrued income	<u>-</u>	<u>683</u>
	<u>3,069</u>	<u>898</u>
Aggregate amounts	<u>91,245</u>	<u>54,745</u>

Amounts owed by group undertakings are unsecured, repayable on demand and are on an interest free basis, with the exception of the following loans. These loans are unsecured and have the following terms and conditions:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£203k	6.19%	Compounded annually	10 years from commencement (2025)	£228k
£2,820k	6.19%	Compounded annually	10 years from commencement (2026)	£2,841k

	Deferred tax £'000
Balance at 1 January 2016	3,140
Deferred tax charge to income statement for the period	(617)
Adjustment in respect of prior years	<u>259</u>
Balance at 31 December 2016	<u>2,782</u>

The deferred tax asset represents tax losses of £269k (2015: £60k), accelerated capital allowances of £2,200k (2015: £2,719k) and short-term and other timing differences of £313k (2015: £361k). A portion of the deferred tax asset is based on losses of £1,559k. The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and is not quantifiable at this time.

HEATH LAMBERT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

13. CASH AT BANK

	2016	2015
	£'000	£'000
Other cash and cash equivalents	2,821	6,874
Restricted cash	<u>10,866</u>	<u>27,381</u>
	<u>13,687</u>	<u>34,255</u>

The Company holds restricted cash balances in respect of its insurance activities, held principally in respect of insurance trade creditors. This cash is held in client money bank accounts and cannot be used for general corporate purposes.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£'000	£'000
Trade creditors	24,008	36,541
Amounts owed to group undertakings	51,667	32,448
Other creditors	440	426
Accruals and deferred income	<u>437</u>	<u>2,320</u>
	<u>76,552</u>	<u>71,735</u>

Amounts owed to group undertakings are unsecured repayable on demand and are on an interest free basis, with the exception of the following loans. These loans are unsecured and have the following terms and conditions:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£1,300k	6.75%	Compounded annually	10 years from commencement (2025)	£1,583k

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016	2015
	£'000	£'000
Amounts owed to group undertakings	<u>152</u>	<u>96</u>

Amounts owed to group undertakings are unsecured and have the following terms and conditions:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£95k	6.19%	Compounded annually	10 years from commencement (2025)	£103k
£48k	6.19%	Compounded annually	10 years from commencement (2026)	£49k

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

16. OPERATING LEASE COMMITMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2016 £'000	2015 £'000
Within one year	412	876
Between one and five years	233	961
In more than five years	<u>131</u>	<u>207</u>
	<u>776</u>	<u>2,044</u>

17. PROVISIONS FOR LIABILITIES

	2016 £'000	2015 £'000
Other provisions	<u>3,464</u>	<u>6,065</u>

	Errors & omissions provision £'000	Future servicing and claims handling provision £'000	Policy cancellation reserve £'000	Property dilapidation provision £'000	Onerous lease provision £'000	Total £'000
At 1 January 2016	3,707	199	169	1,990	-	6,065
Utilised during the year	(3,747)	(119)	-	(167)	(436)	(4,469)
Released during the year	(769)	-	(39)	(403)	(77)	(1,288)
Incurred during the year	2,184	113	-	275	1,047	3,619
Transferred	-	(103)	(84)	(289)	13	(463)
At 31 December 2016	<u>1,375</u>	<u>90</u>	<u>46</u>	<u>1,406</u>	<u>547</u>	<u>3,464</u>

Errors & omissions provision

The Company faces a number of litigation and other claims, the resolution of which is uncertain, which have arisen in the ordinary course of business. Having taken appropriate legal advice and having regards to the Group's errors and omissions insurance arrangements, the Directors have provided amounts which they consider to be a realistic appraisal of the ultimate likely cost of these various claims against the Company. The provision is subject to regular review by the Group's legal department, external legal advisers and the Directors. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

Future servicing and claims handling costs

The provision for future servicing and claims handling costs is an estimate of the cost to run-off claims on policies previously placed by the Company. The provision is based on a projection of future claims applying a trend extrapolated from historical claims data. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

Policy cancellation reserve

The provision for policy cancellation is based on a calculation in which the percentage of cancelled policies, relative to the previous year, is applied to current year income as a projection of likely cancellations in respect of business written in the current year. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

Property dilapidation provision

The provision for dilapidation provision is based on a calculation supplied by an external property management consultant, and applies to the current leases that the Company holds. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

Onerous lease provision

The Company has provided for a provision based on the remaining costs of the lease for the unoccupied space in one of its leased properties. The unoccupied space is not generating any economic benefit and it is deemed to be prudent to make a provision for this.

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

18. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	2016 £'000	2015 £'000
Number:	Class:			
19,000,000	Ordinary	£1	<u>19,000</u>	<u>19,000</u>

Ordinary shares have full rights in the Company with respect to voting, dividends and capital distributions.

19. RESERVES

Called up share capital - represents the nominal value of shares that have been issued.

Retained earnings - includes all current and prior period retained profits and losses.

20. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The immediate parent company is *Friary Intermediate Limited*, a company registered in England and Wales. The largest group of undertakings of which the Company is a member and for which financial statements are prepared, is headed up by *Arthur J. Gallagher & Co.*, a company incorporated in the United States of America, which is the ultimate parent undertaking. The registered address of *Arthur J. Gallagher & Co.* is 2850 W. Golf Rd., Rolling Meadows, IL 60008. A copy of these consolidated financial statements is available from the registered office of the Company.

21. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2017 the assets and liabilities of the Brand Partners business were transferred to *Arthur J. Gallagher Insurance Brokers Limited* at net book value.

On 1 March 2017 the assets and liabilities of the Think business were transferred *Pen Underwriting Limited* at net book value.