

**STRATEGIC REPORT, DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015  
FOR  
HEATH LAMBERT LIMITED**

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**HEATH LAMBERT LIMITED**

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FOR THE YEAR ENDED 31 DECEMBER 2015**

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**HEATH LAMBERT LIMITED**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

**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 2015**

The Directors present their Strategic Report for the year ended 31 December 2015.

#### **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 three of its business units to Arthur J. Gallagher Insurance Brokers Limited during the year ended 31 December 2015. In January the majority of the Company's retail business transferred with the 1st Party London business moving in June. The final transfer in September comprised of the Credit & Surety business. The Company plans to transfer its remaining business units 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 2015 are set out in the financial statements on pages 7 to 22. During the year 7,000,000 ordinary shares of £1 each were allotted and fully paid for cash at par to provide funding to fellow subsidiaries.

For the year ended 31 December 2015 the Company delivered EBITDA on continuing operations before integration costs at £0.6m, which was £4.2m lower than the prior year, principally driven by the transferring of profitable units into fellow group subsidiaries.

#### **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, price risk, 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 Company 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 Company 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 Company. Forward looking cash flow projections are prepared on a regular basis to assess funding requirements.

##### **Foreign currency risk**

The Company'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 Company's results are sensitive to changes in foreign currency exchange rate.

##### **Interest rate risk**

Interest rates on the Company'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 Company 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 arranging beneficial credit terms in accordance with the Group's investment and counterparty policy.

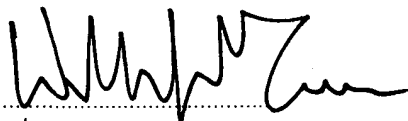
**HEATH LAMBERT LIMITED**

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 has designed a control framework to reduce the risk of non-compliance. This includes regular assessment and monitoring of the compliance and regulatory requirements, with regular reporting to the Risk Committee and Board of Directors, and the Group has a proactive, open relationship with the regulator.

**BY ORDER OF THE BOARD:**



.....  
W McGowan - Secretary

Date: 26 September 2016  
.....

## **HEATH LAMBERT LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2015. The results for the Company for the year ended 31 December 2015 and future developments are discussed in the Strategic Report.

#### **DIRECTORS OF THE COMPANY**

The Director who has held office during the period from 1 January 2015 to the date of this report is as follows:

J Drummond-Smith (Non-Executive)

Other changes in Directors holding office are as follows:

S Dalgarno - resigned - 17 March 2015  
M Mugge - resigned - 26 January 2015  
D Ross - resigned - 9 February 2015  
I G Story - appointed 29 April 2015  
N Eckert (Non-Executive) - resigned 8 September 2015  
M P Rea - appointed 12 November 2015  
C Richmond - appointed 12 November 2015  
T Gallagher - resigned 12 November 2015  
M Pike - resigned 12 November 2015  
G D Chilton - appointed 1 May 2015 and resigned 24 August 2016

#### **DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2015 (2014: £nil).

#### **EVENTS SINCE THE END OF THE YEAR**

Information relating to events since the end of the year 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.

#### **GOING CONCERN**

The Company will be formally supported for the foreseeable future by its ultimate parent company, Arthur J. Gallagher & Co.

The Company's and Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company and Group should have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Director continues to adopt the going concern basis in preparing the financial statements.

#### **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:

**HEATH LAMBERT LIMITED**

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**DIRECTORS' RESPONSIBILITIES STATEMENT - continued**

- 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.

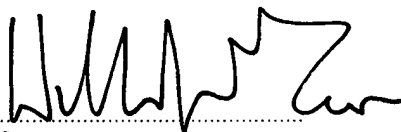
**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

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: 26 September 2016

## **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 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22. 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 FRS 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 pages 4 and 5, 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 2015 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 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.

### **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 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.

*Ernst & Young LLP*

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

Date: *27 September 2016*



**HEATH LAMBERT LIMITED****STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

		<b>2015</b>	<b>2015</b>	<b>2015</b>
	<b>Notes</b>	<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>TURNOVER</b>	2	24,493	1,966	26,459
Administrative expenses		(33,581)	(1,307)	(34,888)
Other operating income		158	-	158
<b>OPERATING (LOSS)/PROFIT</b>	5	<u>(8,930)</u>	<u>659</u>	<u>(8,271)</u>
Interest receivable and similar income	6	724	-	724
Interest payable and similar charges	7	<u>(86)</u>	<u>-</u>	<u>(86)</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(8,292)</u>	<u>659</u>	<u>(7,633)</u>
Tax on (loss)/profit on ordinary activities	8	<u>395</u>	<u>(31)</u>	<u>364</u>
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		<u>(7,897)</u>	<u>628</u>	<u>(7,269)</u>
<b>OTHER COMPREHENSIVE INCOME</b>		-	-	-
<b>TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR</b>		<u>(7,897)</u>	<u>628</u>	<u>(7,269)</u>

**DISCONTINUED OPERATIONS**

The Company hived three aspects of its business to Arthur J. Gallagher Insurance Brokers Limited, a fellow Group subsidiary, during the year ended 31 December 2015. In January the majority of the Company's retail business transferred with the 1st Party London business moving in June. The final transfer in September comprised the Credit Renewal & Surety business. The prior year Statement of Comprehensive Income has been restated for comparative purposes on page 8.

The notes form part of these financial statements

**HEATH LAMBERT LIMITED****STATEMENT OF COMPREHENSIVE INCOME - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

		<b>2014</b>	<b>2014</b>	<b>(Restated)</b>
	<b>Notes</b>	<b>Continuing</b>	<b>Discontinued</b>	<b>2014</b>
		<b>£'000</b>	<b>£'000</b>	<b>Total</b>
				<b>£'000</b>
<b>TURNOVER</b>	2	29,263	23,862	53,125
Administrative expenses		(26,206)	(24,808)	(51,014)
<b>OPERATING PROFIT/(LOSS)</b>	5	<u>3,057</u>	<u>(946)</u>	<u>2,111</u>
Interest receivable and similar income	6	1,001	-	1,001
Interest payable and similar charges	7	<u>(241)</u>	<u>-</u>	<u>(241)</u>
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		3,817	(946)	2,871
Tax on profit/(loss) on ordinary activities	8	<u>650</u>	<u>(1,195)</u>	<u>(545)</u>
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		4,467	(2,141)	2,326
<b>OTHER COMPREHENSIVE INCOME</b>		-	-	-
<b>TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR</b>		<u>4,467</u>	<u>(2,141)</u>	<u>2,326</u>

**DISCONTINUED OPERATIONS**

The Company hived three aspects of its business to Arthur J. Gallagher Insurance Brokers Limited, a fellow Group subsidiary, during the year ended 31 December 2015. In January the majority of the Company's retail business transferred with the 1st Party London business moving in June. The final transfer in September comprised the Credit Renewal & Surety business.

**HEATH LAMBERT LIMITED (REGISTERED NUMBER: 01199129)**

**STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2015**

			2015		(Restated) 2014
	Notes	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Intangible assets	9		4,676		3,890
Tangible assets	10		276		571
Investments	11		<u>1,088</u>		<u>-</u>
			6,040		4,461
<b>CURRENT ASSETS</b>					
Debtors	12	54,745		84,345	
Cash at bank	13	<u>34,255</u>		<u>45,121</u>	
		89,000		129,466	
<b>CREDITORS</b>					
Amounts falling due within one year	14	<u>71,735</u>		<u>113,770</u>	
<b>NET CURRENT ASSETS</b>			<u>17,265</u>		<u>15,696</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			23,305		20,157
<b>CREDITORS</b>					
Amounts falling due after more than one year	15		96		-
<b>PROVISIONS FOR LIABILITIES</b>	17		<u>6,065</u>		<u>2,744</u>
<b>NET ASSETS</b>			<u>17,144</u>		<u>17,413</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	18		19,000		12,000
Retained earnings	19		<u>(1,856)</u>		<u>5,413</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>17,144</u>		<u>17,413</u>

The financial statements were approved and authorised for issue by the Board of Directors on 26/9/16 and were signed on its behalf by:

  
I G Story - Director

The notes form part of these financial statements

**HEATH LAMBERT LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>Called up share capital £'000</b>	<b>(Restated) Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2014</b>	12,000	3,087	15,087
<b>Changes in equity</b>			
Total comprehensive income	-	2,326	2,326
<b>Balance at 31 December 2014</b>	<u>12,000</u>	<u>5,413</u>	<u>17,413</u>
<b>Changes in equity</b>			
Issue of share capital	7,000	-	7,000
Total comprehensive loss	-	(7,269)	(7,269)
<b>Balance at 31 December 2015</b>	<u>19,000</u>	<u>(1,856)</u>	<u>17,144</u>

The notes form part of these financial statements

## HEATH LAMBERT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 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 Company will be formally supported for the foreseeable future by its ultimate parent company, Arthur J. Gallagher & Co.

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. This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 22 for an explanation of the transition.

##### **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.

## HEATH LAMBERT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

#### 1. ACCOUNTING POLICIES - continued

##### 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 appropriate formulae for calculating the year end accrual based on analysis of transactions subject to the insurance service agreements, which are amended when necessary to reflect previous experience with the estimate.

##### 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 differences 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 represented 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	- over 3 years

## HEATH LAMBERT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

#### 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	- up to 10 years
Computer equipment	- over 3 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.

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**1. ACCOUNTING POLICIES - continued**

**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.

**Pensions**

Until the 6<sup>th</sup> April 2014, the Company participated in a defined contribution pension scheme covering the pension arrangements of all eligible employees. The assets of the scheme are invested with an insurance company. The pension costs charged in the Statement of Comprehensive Income represents the contributions payable and is disclosed in note 3.

**2. TURNOVER**

The turnover and loss (2014:profit) before taxation are attributable to the one principal activity of the Company.

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

	<b>2015</b>	<b>(Restated) 2014</b>
	<b>£'000</b>	<b>£'000</b>
Net Brokerage	23,716	37,021
Commission	538	7,626
Fees	<u>2,205</u>	<u>8,478</u>
	<u><u>26,459</u></u>	<u><u>53,125</u></u>

An analysis of turnover by geographical market is given below:

	<b>2015</b>	<b>(Restated) 2014</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	25,810	50,617
Europe	378	1,610
Asia and Australasia	11	432
The Americas	260	465
Africa	<u>-</u>	<u>1</u>
	<u><u>26,459</u></u>	<u><u>53,125</u></u>

**3. STAFF COSTS**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	-	12,050
Social security costs	-	1,227
Other pension costs	<u>-</u>	<u>625</u>
	<u><u>-</u></u>	<u><u>13,902</u></u>

The average monthly number of employees during the year was as follows:

	<b>2015</b>	<b>2014</b>
Broking and technical	-	618
Administration	-	192
Management	<u>-</u>	<u>1</u>
	<u><u>-</u></u>	<u><u>811</u></u>

The amounts relating to staff costs were incurred by the Company to 6 April 2014 after which the costs were incurred by Arthur J. Gallagher Services (UK) Limited. An amount of £21,793k (2014:£31,162k) was recharged back to the Company, and is accounted for in administrative expenses.



**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**4. DIRECTORS' EMOLUMENTS**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	472	716
Company contributions paid to money purchase schemes	<u>3</u>	<u>15</u>
	<u><u>475</u></u>	<u><u>731</u></u>
Members of money purchase schemes	<u><u>5</u></u>	<u><u>3</u></u>

The amounts in respect of the highest paid Director are:

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	181	363
Company contributions paid to money purchase schemes	<u>-</u>	<u>8</u>
	<u><u>181</u></u>	<u><u>371</u></u>

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.

**5. OPERATING (LOSS)/PROFIT**

The operating (loss)/profit is stated after charging:

	<b>(Restated)</b>	
	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases - land and buildings	3,387	3,159
Depreciation - owned assets	305	392
Goodwill amortisation	155	-
Expiration lists amortisation	411	581
Computer software amortisation	840	755
Impairment provision	3,412	-
Auditor's remuneration		
- statutory audit	68	125
- audit related assurance services	<u>15</u>	<u>15</u>

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>(Restated)</b>	
	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	712	1,001
Interest on loans to group undertakings	<u>12</u>	<u>-</u>
	<u><u>724</u></u>	<u><u>1,001</u></u>

**7. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>(Restated)</b>	
	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	11	151
Interest on loans from group undertakings	<u>75</u>	<u>90</u>
	<u><u>86</u></u>	<u><u>241</u></u>

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**8. TAXATION**

**Analysis of the tax credit**

The tax credit on the profit on ordinary activities for the year was as follows:

	<b>2015</b>	<b>(Restated)</b>
	<b>£'000</b>	<b>2014</b>
		<b>£'000</b>
Current tax:		
UK corporation tax on profits for the period	(784)	(92)
Adjustments in respect of previous periods	<u>248</u>	<u>(17)</u>
Total current tax	<u>(536)</u>	<u>(109)</u>
Deferred tax:		
Origination and reversal of timing differences	(238)	544
Adjustments in respect of prior periods	79	148
Effects of changes in tax rates	<u>331</u>	<u>(38)</u>
Total deferred tax	<u>172</u>	<u>654</u>
Total tax per income statement	<u>(364)</u>	<u>545</u>

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2015</b>	<b>(Restated)</b>
	<b>£'000</b>	<b>2014</b>
		<b>£'000</b>
Loss for the period	<u>(7,633)</u>	<u>2,871</u>
Tax on loss at standard UK tax rate of 20.25% (2014: 21.50%)	(1,545)	617
Effects of:		
Expenses not deductible	763	408
Transfer pricing adjustments	(238)	(573)
Adjustments from previous periods	326	130
Tax rate changes	<u>330</u>	<u>(37)</u>
Tax credit for the period	<u>(364)</u>	<u>545</u>

The Company profits are taxable in the UK under the standard rate of corporation tax being 20.25% (2014:21.50%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government legislated during 2015 to reduce the main rate of corporation tax to 19%, applicable from 1 April 2017 with a further reduction of 1% to 18% to apply from 1 April 2020. These reductions have been reflected in the closing deferred tax asset, as they were enacted at the Statement of Financial Position date.

Further legislation has been announced to reduce the corporation tax rate to 17% from 1 April 2020. The impact of this change is not quantifiable at this time.

The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and therefore not quantifiable. The deferred tax asset is based on losses of £334k.

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**9. INTANGIBLE FIXED ASSETS**

	Goodwill £'000	Expiration lists £'000	Computer Software £'000	Assets under construction £'000	Totals £'000
<b>COST</b>					
At 1 January 2015	-	3,766	5,766	185	9,717
Additions	-	-	346	1,564	1,910
Transfers	<u>322</u>	<u>(1,711)</u>	<u>(62)</u>	<u>(29)</u>	<u>(1,480)</u>
At 31 December 2015	<u>322</u>	<u>2,055</u>	<u>6,050</u>	<u>1,720</u>	<u>10,147</u>
<b>AMORTISATION</b>					
At 1 January 2015	-	1,790	4,037	-	5,827
Amortisation for year	155	411	840	-	1,406
Transfers	<u>-</u>	<u>(1,711)</u>	<u>(51)</u>	<u>-</u>	<u>(1,762)</u>
At 31 December 2015	<u>155</u>	<u>490</u>	<u>4,826</u>	<u>-</u>	<u>5,471</u>
<b>NET BOOK VALUE</b>					
At 31 December 2015	<u>167</u>	<u>1,565</u>	<u>1,224</u>	<u>1,720</u>	<u>4,676</u>
At 31 December 2014	<u>-</u>	<u>1,976</u>	<u>1,729</u>	<u>185</u>	<u>3,890</u>

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

Category	Asset	Carrying value	Remaining amortisation period
Expiration list	Project Torquay	£1,371k	4 years
Computer software	GIS	£1,221k	2 years

**10. TANGIBLE FIXED ASSETS**

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Totals £'000
<b>COST</b>				
At 1 January 2015	284	1,807	1,912	4,003
Additions	-	10	36	46
Transfers	<u>(6)</u>	<u>(44)</u>	<u>(68)</u>	<u>(118)</u>
At 31 December 2015	<u>278</u>	<u>1,773</u>	<u>1,880</u>	<u>3,931</u>
<b>DEPRECIATION</b>				
At 1 January 2015	125	1,552	1,755	3,432
Charge for year	85	89	131	305
Transfers	<u>(3)</u>	<u>(23)</u>	<u>(56)</u>	<u>(82)</u>
At 31 December 2015	<u>207</u>	<u>1,618</u>	<u>1,830</u>	<u>3,655</u>
<b>NET BOOK VALUE</b>				
At 31 December 2015	<u>71</u>	<u>155</u>	<u>50</u>	<u>276</u>
At 31 December 2014	<u>159</u>	<u>255</u>	<u>157</u>	<u>571</u>

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**11. FIXED ASSET INVESTMENTS**

	<b>Shares in group undertakings £'000</b>
<b>COST</b>	
At 1 January 2015	19,250
Additions	<u>4,500</u>
At 31 December 2015	<u>23,750</u>
<b>PROVISION FOR IMPAIRMENT</b>	
At 1 January 2015	19,250
Provided during the year	<u>3,412</u>
At 31 December 2015	<u>22,662</u>
<b>NET BOOK VALUE</b>	
At 31 December 2015	<u>1,088</u>
At 31 December 2014	<u>-</u>

<b>Name of Company</b>	<b>Country of registration</b>	<b>Holding</b>	<b>Proportion of shares held</b>
Heath Lambert Overseas Limited	England & Wales	Ordinary Shares	100.00%
Gallagher Benefits Consulting Limited	England & Wales	Ordinary Shares	100.00%
Lambert Fenchurch Overseas Limited*	England & Wales	Ordinary Shares	100.00%
Fenchurch Faris Limited*	Jordan	Ordinary Shares	10.00%
Fenchurch Faris Limited*	Saudi Arabia	Ordinary Shares	14.00%

\*held indirectly

During 2015 the Company increased its investment in Gallagher Benefits Consulting Limited by £4,500k. This increased investment was deemed to be impaired by £3,859k at the year end. This is based on the net assets of Gallagher Benefits Consulting Limited.

**12. DEBTORS**

	<b>2015</b>	<b>(Restated) 2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	18,668	51,031
Amounts owed by group undertakings	26,787	16,518
Other debtors	26	14
Corporation tax	3,098	2,780
Deferred tax asset	3,140	3,312
Prepayments and accrued income	<u>2,128</u>	<u>10,690</u>
	53,847	84,345
<b>Amounts falling due after more than one year:</b>		
Amounts owed by group undertakings	215	-
Prepayments and accrued income	<u>683</u>	<u>-</u>
Aggregate amounts	<u>54,745</u>	<u>84,345</u>

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**12. DEBTORS – continued**

Amounts owed by group undertakings 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)	£215k

	Deferred tax £'000
Balance at 1 January 2015	3,312
Adjustments in respect of prior years	(80)
Deferred tax charge to income statement for the year	<u>(92)</u>
Balance at 31 December 2015	<u>3,140</u>

The deferred tax asset represents tax losses of £60k (2014:£67k), accelerated capital allowances of £2,719k (2014:£2,844k) and short term and other timing differences of £361k (2014:£401k). The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and therefore not quantifiable.

**13. CASH AT BANK**

	2015 £'000	(Restated) 2014 £'000
Other cash and cash equivalents	6,874	1,705
Restricted cash	<u>27,381</u>	<u>43,416</u>
	<u>34,255</u>	<u>45,121</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**

	2015 £'000	(Restated) 2014 £'000
Trade creditors	36,541	77,731
Amounts owed to group undertakings	32,448	27,376
Other creditors	426	57
Accruals and deferred income	<u>2,320</u>	<u>8,606</u>
	<u>71,735</u>	<u>113,770</u>

Contained within trade creditors is £9,826k relating to trading with group entities.

Amounts owed to group undertakings are unsecured and repayable on demand. All loans are interest free with the exception of:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£1,300k	6.75%	Compounded annually	10 years from commencement (2025) but can be recalled on demand of the lender	£1,483k

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

	2015 £'000	2014 £'000
Amounts owed to group undertakings	<u>96</u>	<u>-</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
£94k	6.19%	Non-compounding	10 years from commencement (2025)	£96k

**16. LEASING AGREEMENTS**

Minimum lease payments under non-cancellable operating leases fall due as follows:	2015 £'000	(Restated) 2014 £'000
Within one year	876	2,126
Between one and five years	961	1,680
In more than five years	<u>207</u>	<u>344</u>
	<u>2,044</u>	<u>4,150</u>

**17. PROVISIONS FOR LIABILITIES**

	2015 £'000	2014 £'000
Other provisions	<u>6,065</u>	<u>2,744</u>

	Policy cancellation reserve £'000	E&O provision £'000	Claims handling provision £'000	Property dilapidation provision £'000	Total £'000
At 1 January 2015	31	830	121	1,762	2,744
Utilised during the year	-	(519)	-	-	(519)
Incurred during the year	<u>138</u>	<u>3,396</u>	<u>78</u>	<u>228</u>	<u>3,840</u>
At 31 December 2015	<u>169</u>	<u>3,707</u>	<u>199</u>	<u>1,990</u>	<u>6,065</u>

**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.

**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.

**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 lease that the Company holds. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

## HEATH LAMBERT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

#### 18. CALLED UP SHARE CAPITAL

##### Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2015 £'000	2014 £'000
19,000,000	Ordinary	£1	<u>19,000</u>	<u>12,000</u>

7,000,000 Ordinary shares of £1 each were allotted and fully paid for cash at par during the year.

The ordinary shares rank equally in terms of voting rights, one vote for each share, and in the rights to participate in all approved dividend distribution for that class of share.

#### 19. RESERVES

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

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

#### 20. ULTIMATE PARENT UNDERTAKING

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. A copy of these consolidated financial statements is available from the registered office of the Company.

#### 21. EVENTS AFTER THE REPORTING PERIOD

The Company received a gift of £15,000k from its immediate parent, Friary Intermediate Limited in June 2016.

#### 22. TRANSITION TO FRS102

The Company transitioned to FRS 102 from previously extant UK Accounting Standards as at 1 January 2014.

Note	Total changes in equity for		
	Equity as at 1 Jan 2014 £'000	the year ended 31 Dec 2014 £'000	Equity as at 31 Dec 2014 £'000
As previously stated under former UK GAAP	7,855	(4,633)	3,222
<b>Prior year adjustments</b>			
MRP	a	7,232	6,959
			14,191
<b>As restated under former UK GAAP and as stated in accordance with FRS 102</b>		<u>15,087</u>	<u>2,326</u>
			<u>17,413</u>

##### Prior year adjustments

##### a. MRP

Relates to a correction to the historical transfer of a business unit to Arthur J. Gallagher UK Limited, a fellow Group undertaking.

The insurance business balances of the Appointed Representatives of the Company, which are within the Group, have been accounted for in the Company's Statement of Financial Position. Trade debtors of £4,680k (2014:£4,549k), restricted cash of £8,127k (2014:£10,103k) and trade creditors of £11,586k (2014:£12,975k) have been included in the Statement of Financial Position for the year ended 31 December 2015, with the balancing figure reflected through restated intercompany balances with the respective Appointed Representatives. These adjustments therefore have no impact on prior year equity.

**HEATH LAMBERT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**22. TRANSITION TO FRS102 – continued**

**Adjustments arising on transition to FRS 102**

Additionally, under FRS 102 computer software has been reallocated from tangible fixed assets to intangible fixed assets and assets under construction have been capitalised from other debtors. The net book value of these assets at 31 December 2015 is £1,224k (2014:£1,729k) and £1,720k (2014:£185k) respectively. Also the total lease obligation for the term must be shown within the operating lease commitments note, note 16, under FRS 102. Previously, only the obligation for the following 12 months was required. These adjustments have no impact on prior year equity.