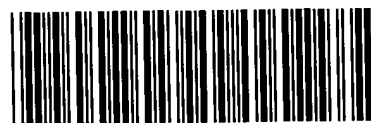


**STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014
FOR
HEATH LAMBERT LIMITED**

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HEATH LAMBERT LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2014**

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HEATH LAMBERT LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

DIRECTORS:

T Gallagher
M Pike
J Drummond-Smith (Non-Executive)
I G Story
G D Chilton

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
1 More London Place
London
SE1 2AF

HEATH LAMBERT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors present their strategic report for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company's principal business is that of insurance broking. Revenues are geographically diversified with operations in the United Kingdom, Europe, North America and other countries.

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 consolidated financial statements of Arthur J. Gallagher & Co. ("the Group") which are publicly available.

REVIEW OF BUSINESS AND FUTURE ACTIVITIES

For the year ended 31 December 2014, the Company recorded a loss before tax of £4.1 million, compared to a pre-tax profit of £1.8 million for the year ended 31 December 2013. Turnover decreased by 9% to £53.2 million compared to £58.5 million in 2013.

On 12 January 2015 the majority of the retail assets and liabilities of the Company were transferred at net book value to its fellow subsidiary undertaking Arthur J. Gallagher Insurance Brokers Limited. This resulted in no gain or loss being recognised. The Company received a capital injection of £2 million on 21 July 2015. On the same date the Company provided a capital injection of £1 million in its subsidiary Gallagher Benefits Consulting Limited.

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2014 are set out in these financial statements on pages 7 to 18. The total loss for the year of £3.1 million (2013: profit £0.7 million) was transferred to reserves. No dividends were paid during the year (2013: £nil). The Directors have not recommended the payment of a final dividend (2013: £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's international operations and debt profile expose it to a variety of financial risks including the effects of changes in foreign currency exchange rates, counterparty credit risks, liquidity and interest rates. The Company has in place a risk management programme and policies that seek to limit the adverse impact upon the Company by use of financial instruments to fix currency rates.

Borrowing facilities and liquidity risk

The Group maintains facilities to ensure it has adequate funds available to finance operations and the growth of the business.

Foreign currency risk

The Company's major currency transaction exposure arises in respect of US dollar revenue earned in the UK. As a consequence, the Company's results are sensitive to changes in the sterling/US dollar exchange rate.

Where forward foreign exchange contracts have been entered into to manage currency risk, they are designated as hedges of currency risk on specific future cash flows, which qualify as highly probable transactions for which hedge accounting has been used.

Interest rate risk

The Group has interest bearing assets but no material interest bearing liabilities that would give rise to exposures to fluctuations in interest rates.

Counterparty credit risk

The Company manages its cash and investment balances in the form of deposits with prime banks and other short term money market instruments, in accordance with the Group's investment and counterparty policy agreed by the Board of Directors.

Price risk

The Company does not have a material exposure to equity securities price risk or commodity price risk.

Risk management

The Company's immediate parent is Friary Intermediate Limited and its ultimate parent is Arthur J. Gallagher & Co. Robust risk management is fundamental to the achievement of the Group's objectives. 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.

HEATH LAMBERT LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014**

EMPLOYEES

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

BY ORDER OF THE BOARD:


.....
W McGowan - Secretary

Date: 28/9/15

HEATH LAMBERT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors present their report with the financial statements of the Company for the year ended 31 December 2014.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2014 (2013:£nil)

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in note 23 in the financial statements.

DIRECTORS

The Directors shown below have held office during the whole of the period from 1 January 2014 to the date of this report.

T Gallagher
M Pike

Other changes in Directors holding office are as follows:

J Drummond-Smith (Non-Executive) - appointed 12 February 2014
S Dalgarno - resigned - 17 March 2015
M Mugge - resigned - 26 January 2015
D Ross - resigned - 9 February 2015
M Cooper-Mitchell (Non-Executive) - resigned - 30 June 2014
T O'Neill (Non-Executive) - resigned - 31 December 2014
I Story - appointed 29 April 2015
G Chilton - appointed 1 May 2015
N Eckert (Non-Executive) - resigned - 8 September 2015

DIRECTORS' INDEMNITY PROVISIONS

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

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Directors' Report, Strategic 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

HEATH LAMBERT LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014**

AUDITOR

The auditors, Ernst & Young LLP, are deemed to be reappointed as the Company's auditors, in accordance with section 487(2) of the Companies Act 2006.

BY ORDER OF THE BOARD:

.....
W McGowan - Secretary

Date:

28/9/15

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 2014 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the 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 and the Directors' Report and Financial Statements for the year ended 31 December 2014 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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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

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: *28 September 2015*

HEATH LAMBERT LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	Restated 2013 £'000
TURNOVER	2	<u>53,231</u>	<u>58,504</u>
Continuing operations		31,925	34,277
Discontinued operations		<u>21,306</u>	<u>24,227</u>
Net operating expenses	3	<u>(58,079)</u>	<u>(58,167)</u>
Other operating income	4	-	159
OPERATING (LOSS)/PROFIT	7	<u>(4,848)</u>	<u>496</u>
Continuing operations		(3,391)	496
Discontinued operations		<u>(1,457)</u>	<u>-</u>
Exceptional items		<u>-</u>	<u>(3)</u>
		(4,848)	493
Interest receivable and similar income	8	<u>1,001</u>	<u>1,262</u>
		(3,847)	1,755
Interest payable and similar charges	9	<u>(241)</u>	<u>-</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,088)	1,755
Tax on (loss)/profit on ordinary activities	10	<u>950</u>	<u>(1,045)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u>(3,138)</u>	<u>710</u>

TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses other than the loss for the current year and the profit for the previous year.

DISCONTINUED OPERATIONS

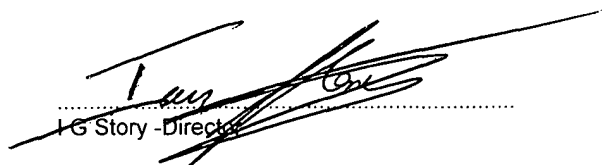
On 12 January 2015 the majority of the retail assets and liabilities of the Company were transferred at net book value to its fellow subsidiary undertaking Arthur J. Gallagher Insurance Brokers Limited. Further information is included in note 23. The prior year Profit and Loss figures have been restated for comparative purposes under the requirements of FRS 3.

HEATH LAMBERT LIMITED (REGISTERED NUMBER: 01199129)

**BALANCE SHEET
31 DECEMBER 2014**

	Notes	£'000	2014 £'000	2013 £'000
FIXED ASSETS				
Intangible assets	11		1,976	502
Tangible assets	12		2,300	1,540
Investments	13		-	-
			<u>4,276</u>	<u>2,042</u>
CURRENT ASSETS				
Debtors	14	81,479		93,967
Cash at bank	15	<u>35,018</u>		<u>37,761</u>
		116,497		131,728
CREDITORS				
Amounts falling due within one year	16	<u>113,312</u>		<u>120,870</u>
NET CURRENT ASSETS			<u>3,185</u>	<u>10,858</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			7,461	12,900
PROVISIONS FOR LIABILITIES	18		<u>(2,744)</u>	<u>(5,045)</u>
NET ASSETS			<u>4,717</u>	<u>7,855</u>
CAPITAL AND RESERVES				
Called up share capital	20		12,000	12,000
Profit and loss account	21		<u>(7,283)</u>	<u>(4,145)</u>
SHAREHOLDERS' FUNDS	25		<u>4,717</u>	<u>7,855</u>

The financial statements were approved by the Board of Directors on 28 SEPTEMBER, 2015 and were signed on its behalf by:


I G Story - Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES

Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and comply with accounting standards applicable in the United Kingdom. These accounting policies have been applied consistently during the period.

The Directors have 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 publically available from the Company's registered office in the United States of America.

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Arthur J. Gallagher & Co. Group.

Turnover

Insurance broking turnover represents the aggregate of net brokerage, fees, commission and other related income, including that arising as a result of run-off activity in the markets. Brokerage is recognised at the date of inception of the risk subject to the placement having been completed to the client's satisfaction and invoiced. In instances where the inception of the risk does not relieve the Company of all contractual obligations, an element of brokerage is deferred and subsequently released to the Profit and Loss Account as these obligations are discharged.

Brokerage on multi-year policies that are non-cancellable is recognised at the date of inception of the risk, providing that the brokerage is not dependent on future events. Brokerage on multi-year policies which can be cancelled or varied after the inception of the risk is apportioned on an annual basis.

Commission income received on an indemnity term basis where, should the client cancel the policy within a certain timeframe, the relevant proportion of the commission is repayable to the provider, is accounted for on an accruals basis when the policy is completed. A separate provision is maintained to cover the anticipated repayments to product providers of commissions previously recognised as income.

Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation. The Company capitalises assets with a cost price over £500.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Leasehold improvements	- to lease expiration
Fixtures and fittings	- over 5 years
Computer equipment and software	- over 4 years

Taxation

Provision is made at current rates for taxation. In accordance with FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet 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 differences can be deducted.

Deferred tax assets and liabilities are not discounted.

Fixed asset investments

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

Foreign currencies

Monetary assets and liabilities in foreign currencies are expressed in sterling at exchange rates as at the Balance Sheet date. Income earned in foreign currencies is recognised in the Profit and Loss Account at the exchange rate at the date of the transaction. All realised exchange differences arising from trading are recognised in the result before taxation.

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES - continued

Operating leases

Assets acquired under finance leases are capitalised as tangible fixed assets and stated at cost less accumulated depreciation. Interest included within lease payments is charged to the profit and loss account over the period of the lease at a rate which reflects the capital repayments outstanding.

Lease payments in respect of operating leases are charged against profit as incurred over the period of the lease. Where a leasehold property becomes surplus to the Company's foreseeable business requirements, provision is made for the expected future net cost of the property taking account of the duration of the lease and any recovery of cost achievable from subletting.

Pensions

All Company employees may become members of the Gallagher (UK) Pension Plan, a defined contribution scheme. Contributions are charged to the Profit and Loss Account as they become payable in accordance with the rules of the scheme. Under the rules of the defined pension scheme, the pension charges represent the contributions payable by the Company up to 6 April 2014 at which point all employees were transferred to Arthur J Gallagher Services (UK) Limited.

Intangible assets

Intangible assets arising on the acquisition of teams and other business have been capitalised, classified as assets on the balance sheet and amortised over their useful economic life as shown below. They are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Amortisation is provided on all intangible assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Expiration lists	- maximum 5 years
Non-competes	- maximum 5 years

Systems development costs

External costs incurred in connection with the development of improved data handling systems are capitalised when the cost price is over £15,000. These costs are then written off in equal annual instalments over three years, commencing with the year in which benefits arise from the introduction of these systems. The carrying value is assessed annually and further provision, where appropriate, is made for any impairment in value.

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 and a reasonable estimate can be made of the amount of the obligation.

Insurance broking debtors and 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 Balance Sheet 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. FRS 5 requires that 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.

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

2. TURNOVER

The turnover and loss (2013 - profit) before taxation are attributable to the one principal activity of the Company.

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

	2014 £'000	2013 £'000
Net Brokerage	37,127	40,667
Commission	7,626	7,905
Fees	<u>8,478</u>	<u>9,932</u>
	<u>53,231</u>	<u>58,504</u>

An analysis of turnover by geographical market is given below:

	2014 £'000	2013 £'000
United Kingdom	50,723	52,708
Europe	1,610	3,405
Asia and Australasia	432	1,517
The Americas	465	863
Africa	<u>1</u>	<u>11</u>
	<u>53,231</u>	<u>58,504</u>

The table above analyses turnover by the address of the client from whom the business is derived. This does not necessarily reflect the original source or location of the business.

3. ANALYSIS OF OPERATIONS

	Continuing £'000	Discontinued £'000	2014 Total £'000
Turnover	<u>31,925</u>	<u>21,306</u>	<u>53,231</u>

Net operating expenses:

Administrative expenses	<u>35,348</u>	<u>22,731</u>	<u>58,079</u>
-------------------------	---------------	---------------	---------------

	Continuing £'000	Discontinued £'000	2013 Total £'000
Turnover	<u>34,277</u>	<u>24,227</u>	<u>58,504</u>

Net operating expenses:

Administrative expenses	<u>33,129</u>	<u>25,038</u>	<u>58,167</u>
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4. OTHER OPERATING INCOME

	2014 £'000	2013 £'000
Other income	<u>-</u>	<u>159</u>

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

5. STAFF COSTS

	2014 £'000	2013 £'000
Wages and salaries	12,050	40,262
Social security costs	1,227	4,227
Other pension costs	625	1,955
	<u>13,902</u>	<u>46,444</u>

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

	2014	2013
Broking and technical	618	639
Administration	192	221
Management	<u>1</u>	<u>1</u>
	<u>811</u>	<u>861</u>

The costs associated with wages and salaries are to 6 April 2014 after which the costs were incurred by Arthur J Gallagher Services (UK) Ltd. An amount of £31,162k was recharged back to Heath Lambert Limited and is accounted for in administrative expenses.

6. DIRECTORS' EMOLUMENTS

Directors' emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	716	668
Company contributions paid to money purchase schemes	<u>15</u>	<u>16</u>
	<u>731</u>	<u>684</u>

Members of money purchase schemes	<u>3</u>	<u>3</u>
-----------------------------------	----------	----------

The amounts in respect of the highest paid Director are:

Aggregate emoluments	363	328
Company contributions paid to money purchase schemes	<u>8</u>	<u>5</u>
	<u>371</u>	<u>333</u>

The costs associated with Directors emoluments were incurred by Arthur J. Gallagher (UK) Limited up to 6 April 2014, after which the costs were incurred by Arthur J Gallagher Services (UK) Limited. An amount of £731k was recharged to the Company, and is accounted for in administrative expenses.

7. OPERATING (LOSS)/PROFIT

The operating loss (2013 - operating profit) is stated after charging:

	2014 £'000	2013 £'000
Other operating leases	3,159	5,194
Depreciation - owned assets	1,147	1,443
Expiration lists amortisation	581	591
Auditors' remuneration - statutory audit	53	53
Auditors' remuneration - group reporting	72	97
Auditors' remuneration - other services	<u>15</u>	<u>15</u>

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £'000	2013 £'000
Interest receivable	<u>1,001</u>	<u>1,262</u>

Interest receivable arises from interests received on bank deposits, £296k (2013:£240k) and from the financial facility provided to clients to settle their policies by instalments £705k (2013:£1,022k).

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Loan interest	<u>241</u>	<u>-</u>

10. TAXATION

Analysis of the tax (credit)/charge

The tax (credit)/charge on the loss on ordinary activities for the year was as follows:

	2014 £'000	2013 £'000
Current tax:		
UK corporation tax	-	-
Group relief (surrendered to) / claimed from fellow Group companies	(1,587)	(321)
Adjustments in respect of prior years	<u>(17)</u>	<u>134</u>
Total current tax	<u>(1,604)</u>	<u>(187)</u>
Deferred tax:		
Origination and reversal of timing differences	544	792
Impact of tax rate change	(38)	586
Adjustments in respect of prior years	<u>148</u>	<u>(146)</u>
Total deferred tax	<u>654</u>	<u>1,232</u>
Tax on (loss)/profit on ordinary activities	<u>(950)</u>	<u>1,045</u>

Factors affecting the tax (credit)/charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2014 £'000	2013 £'000
(Loss)/profit on ordinary activities before tax	<u>(4,088)</u>	<u>1,755</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.50% (2013 - 23.25%)	(879)	408
Effects of:		
Expenses not deductible for tax purposes	408	230
Capital allowances in excess of depreciation	(469)	(543)
Adjustments to tax charge in respect of previous periods	(17)	134
Origination of timing differences - general provisions	(75)	(250)
Transfer pricing adjustments	<u>(572)</u>	<u>(166)</u>
Current tax (credit)/charge	<u>(1,604)</u>	<u>(187)</u>

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

10. TAXATION - continued

The Company profits are taxable in the UK under the standard rate of corporation tax being 21.25% (2013: 23.25%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government legislated during 2013 to reduce the main rate of corporation tax to 21%, applicable from 1 April 2014, with a further reduction of 1% to 20% to apply from 1 April 2015. These reductions have been reflected in the closing deferred tax asset, as they were enacted at the Balance Sheet date. Further legislation has been announced, due to be enacted post September 2015, to reduce the corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020. The impact of these changes is not quantifiable at this time.

11. INTANGIBLE FIXED ASSETS

	Expiration lists £'000
COST	
At 1 January 2014	1,711
Additions	<u>2,055</u>
At 31 December 2014	<u>3,766</u>
AMORTISATION	
At 1 January 2014	1,209
Amortisation for year	<u>581</u>
At 31 December 2014	<u>1,790</u>
NET BOOK VALUE	
At 31 December 2014	<u>1,976</u>
At 31 December 2013	<u>502</u>

12. TANGIBLE FIXED ASSETS

	Computer software £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Totals £'000
COST					
At 1 January 2014	4,155	166	1,680	1,861	7,862
Additions	<u>1,611</u>	<u>118</u>	<u>127</u>	<u>51</u>	<u>1,907</u>
At 31 December 2014	<u>5,766</u>	<u>284</u>	<u>1,807</u>	<u>1,912</u>	<u>9,769</u>
DEPRECIATION					
At 1 January 2014	3,282	44	1,467	1,529	6,322
Charge for year	<u>755</u>	<u>81</u>	<u>85</u>	<u>226</u>	<u>1,147</u>
At 31 December 2014	<u>4,037</u>	<u>125</u>	<u>1,552</u>	<u>1,755</u>	<u>7,469</u>
NET BOOK VALUE					
At 31 December 2014	<u>1,729</u>	<u>159</u>	<u>255</u>	<u>157</u>	<u>2,300</u>
At 31 December 2013	<u>873</u>	<u>122</u>	<u>213</u>	<u>332</u>	<u>1,540</u>

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

13. FIXED ASSET INVESTMENTS

	Shares in	group undertakings £'000
COST		
At 1 January 2014		
and 31 December 2014		<u>19,250</u>
PROVISIONS		
At 1 January 2014		
and 31 December 2014		<u>19,250</u>
NET BOOK VALUE		
At 31 December 2014		<u>-</u>
At 31 December 2013		<u>-</u>

The Company's investments at the Balance Sheet date in the share capital of companies and comprise of the following:

Heath Lambert Overseas Limited	%
Class of shares:	holding
Ordinary	100.00
Gallagher Benefits Consulting Limited	%
Class of shares:	holding
Ordinary	100.00
Lambert Fenchurch Overseas Limited*	%
Class of shares:	holding
Ordinary	100.00
Fenchurch Faris Limited**	%
Class of shares:	holding
Ordinary	10.00

*Subsidiary held indirectly via Heath Lambert Overseas Limited

**Associate held indirectly via Heath Lambert Overseas Limited

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Insurance debtors	46,486	65,046
Unrealised brokerage	-	6,611
Amounts owed by group undertakings	16,517	8,440
Other debtors	199	2,491
Corporation tax	4,275	801
Deferred tax asset (see note 18)	3,312	3,966
Prepayments and accrued income	<u>10,690</u>	<u>6,612</u>
	<u>81,479</u>	<u>93,967</u>

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

15. CASH AT BANK

	2014 £'000	2013 £'000
Other cash and cash equivalents	1,705	2,267
Restricted cash	<u>33,313</u>	<u>35,494</u>
	<u>35,018</u>	<u>37,761</u>

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Insurance creditors	64,756	93,299
Amounts owed to group undertakings	39,893	16,642
Social security and other taxes	-	2,226
Other creditors	57	1,686
Accruals and deferred income	8,606	7,017
	<u>113,312</u>	<u>120,870</u>

Other creditors falling due within one year include £nil (2013: £284k) of outstanding pension contributions. Amounts owed to Group undertakings are unsecured, interest free and repayable on demand with the exception of a loan of £1,300k that bears interest at 6.75%.

17. OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year:

	Land and buildings 2014 £'000	2013 £'000
Expiring:		
Within one year	221	100
Between one and five years	2,225	4,387
In more than five years	214	2,228
	<u>2,660</u>	<u>6,715</u>

The majority of leases of land and buildings are subject to rent reviews.

18. PROVISIONS FOR LIABILITIES

	2014 £'000	2013 £'000
Other provisions	<u>2,744</u>	<u>5,045</u>
	Deferred tax	Other provisions
	£'000	£'000
Balance at 1 January 2014	(3,966)	5,045
Credit to Profit and Loss Account during year	-	(2,301)
Accelerated capital allowances	469	-
Timing differences	75	-
Impact of tax rate change	(38)	-
Prior year adjustments	148	-
Balance at 31 December 2014	<u>(3,312)</u>	<u>2,744</u>

The deferred tax asset represents tax losses - £67k (2013: £217k), accelerated capital allowances £2,844k (2013: £3,278k) and short term and other timing differences - £401k (2013: £471k).

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

18. PROVISIONS FOR LIABILITIES - continued

Other provisions:

	Policy cancellation reserve £'000	Litigation provisions £'000	Claims handling provision £'000	Property costs provision £'000	Total £'000
At 1 January 2014	-	1,185	1,937	1,923	5,045
Amounts incurred/(released) in year	31	(355)	(1,816)	(161)	(2,301)
At 31 December 2014	31	830	121	1,762	2,744

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 the future.

Property costs

This provision is the estimated liability in respect of wear and tear on the Company's leasehold properties as at 31 December 2014, together with provisions in respect of rentals on empty property. This provision will be utilised as the leases on the Company's leasehold properties expire.

Litigation provisions

The Company faces a number of complex and lengthy litigation matters, which have arisen in the ordinary course of business, the resolution of which is uncertain. Such actions, which have become a common feature for companies trading in the international insurance markets, seek to recover amounts that, if awarded, would be significant. Having taken appropriate legal advice and having regard to the Company's 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. It is not practical to specifically indicate the likely timing of claim settlements. The provision is subject to regular review by the Company's legal department, external legal advisers and the Directors.

Claims handling provision

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.

19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2014 £'000	2013 £'000
12,000,000	Ordinary	£1	12,000	12,000

HEATH LAMBERT LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2014

20. RESERVES

	Profit and loss account £'000
At 1 January 2014	(4,145)
Deficit for the year	<u>(3,138)</u>
At 31 December 2014	<u>(7,283)</u>

21. PENSION COMMITMENTS

During the year, the Company operated a defined contribution pension scheme for its employees. The assets of the scheme were held separately from those of the Company in an independently administered fund. As of 6 April 2014, all employees were transferred to Arthur J Gallagher Services (UK) Limited, which now operates a defined contribution pension scheme for its employees.

22. 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. A copy of these consolidated financial statements is available from the registered office of Heath Lambert Limited.

23. POST BALANCE SHEET EVENTS

On 12 January 2015 the majority of the retail assets and liabilities of Heath Lambert Limited were transferred at net book value to its fellow subsidiary undertaking Arthur J. Gallagher Insurance Brokers Limited. This resulted in no gain or loss being recognised. The Company received a capital injection of £2 million on 21 July 2015 from its immediate parent Friary Intermediate Limited. On the same date the Company provided a capital injection of £1 million in its subsidiary Gallagher Benefits Consulting Limited.

24. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2014 £'000	2013 £'000
(Loss)/profit for the financial year	<u>(3,138)</u>	<u>710</u>
Net (reduction)/addition to shareholders' funds	(3,138)	710
Opening shareholders' funds	<u>7,855</u>	<u>7,145</u>
Closing shareholders' funds	<u>4,717</u>	<u>7,855</u>