



**STRATEGIC REPORT, DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018  
FOR  
ARTHUR J. GALLAGHER INSURANCE BROKERS  
LIMITED**

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

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FOR THE YEAR ENDED 31 DECEMBER 2018**

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**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**DIRECTORS:**

L Patten (Non-Executive)  
J Drummond-Smith (Non-Executive)  
S Green (Non-Executive)  
M Rea  
C Richmond  
C Scott

**SECRETARY:**

A Peel

**REGISTERED OFFICE:**

Spectrum Building 7<sup>th</sup> Floor  
55 Blythswood Street  
Glasgow  
G2 7AT

**REGISTERED NUMBER:**

SC108909 (Scotland)

**INDEPENDENT AUDITOR:**

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

## **ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

The Directors present their Strategic Report for the year ended 31 December 2018.

#### **REVIEW OF BUSINESS**

The principal activity of the Company in the period under review was that of insurance broking. It is expected that there will be no significant change to the nature of the Company's activities in the foreseeable future.

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 2018 are set out in the financial statements on pages 8 to 21.

Following completion of the significant integration activity of the last few years the Company has benefited from using its leverage with insurer partners allowing us to offer our clients better products at better prices and all round better service. As a result revenue has grown due to an increase in new clients and improved cross-selling of a wider product set. 2018 also saw the return to our M&A strategy and the Company successfully completed the integration of Risk Services Ltd on 1st September 2018.

For the year ended 31 December 2018 the Company recorded turnover of £222,138k, an increase over prior year of £8,097k (3.8%) with a profit before tax of £25,228k, an increase over prior year of £4,201k (20.0%). The growth in turnover was principally driven by new customer wins and cross-selling. The improvement in profit before tax can be attributed to increased turnover and continued cost control and efficiency savings.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's international operations and debt profile expose it to a variety of financial and operational 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 rates.

##### **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 arranging beneficial credit terms in accordance with the Group's investment and counterparty policy.

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**PRINCIPAL RISKS AND UNCERTAINTIES - continued**

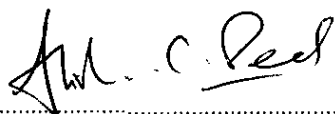
**Compliance risk**

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 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 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, the prevention of cyber crime and financial crime, and compliance with regulations. An appropriate control framework has been deployed to manage and mitigate these key operational risks.

**BY ORDER OF THE BOARD:**



.....  
A Peel - Secretary

Date: 23 September 2019

## **ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2018. The results for the Company for the year ended 31 December 2018 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 2018 to the date of this report are as follows:

L Patten (Non-Executive)  
J Drummond-Smith (Non-Executive)  
S Green (Non-Executive)  
M Rea  
C Richmond

Other changes in Directors holding office are as follows:

C Scott - appointed 6 February 2018  
I Story - resigned 30 June 2018

#### **DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2018 (2017: £nil).

#### **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; and
- 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.

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

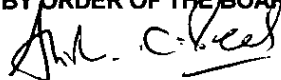
**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

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:**



.....  
A Peel - Secretary

Date: 23 September 2019

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

### **Opinion**

We have audited the financial statements of Arthur J. Gallagher Insurance Brokers Limited for the year ended 31 December 2018 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, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

### **Conclusions relating to going concern**

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

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

### **Other information**

The other information comprises the information included Directors' Report and the Strategic Report. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters 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 Directors' Report have been prepared in accordance with applicable legal requirements.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED - continued**

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

**Responsibilities of Directors**

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

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.

*Ernst & Young LLP*

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

Date:

*25 September 2019*

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 £'000	2017 £'000
<b>TURNOVER</b>	2	222,138	214,041
Administrative expenses		<u>(197,276)</u>	<u>(195,064)</u>
<b>OPERATING PROFIT</b>	5	24,862	18,977
Investment income	6	-	120
Interest receivable and similar income	7	<u>371</u>	<u>2,469</u>
		25,233	21,566
Interest payable and similar expenses	8	<u>(5)</u>	<u>(539)</u>
<b>PROFIT BEFORE TAXATION</b>		25,228	21,027
Tax on profit	9	<u>(5,575)</u>	<u>(5,585)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>19,653</u>	<u>15,442</u>

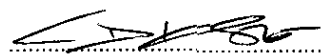
The notes form part of these financial statements

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED (REGISTERED NUMBER: SC108909)**

**STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2018**

	Notes	£'000	2018 £'000	£'000	2017 £'000
<b>FIXED ASSETS</b>					
Intangible assets	10		3,447		8,411
Tangible assets	11		6,067		5,494
Investments	12		<u>890</u>		<u>890</u>
			10,404		14,795
<b>CURRENT ASSETS</b>					
Debtors	13	192,865		179,300	
Cash at bank	14	<u>146,183</u>		<u>152,901</u>	
		339,048		332,201	
<b>CREDITORS</b>					
Amounts falling due within one year	15	<u>246,280</u>		<u>258,204</u>	
<b>NET CURRENT ASSETS</b>			<u>92,768</u>		<u>73,997</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			103,172		88,792
<b>CREDITORS</b>					
Amounts falling due after more than one year	16		-		5,091
<b>PROVISIONS FOR LIABILITIES</b>	18		<u>7,008</u>		<u>7,190</u>
<b>NET ASSETS</b>			<u>96,164</u>		<u>76,511</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	19		98,680		98,680
Share premium	20		775		775
Retained earnings	20		<u>(3,291)</u>		<u>(22,944)</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>96,164</u>		<u>76,511</u>

The financial statements were approved and authorised for issue by the Board of Directors on 23 September 2019 and were signed on its behalf by:



C Scott - Director

The notes form part of these financial statements

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED****STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<b>Called up share capital £'000</b>	<b>Share premium £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2017</b>	98,680	775	(38,386)	61,069
<b>Changes in equity</b>				
Profit for financial year	-	-	15,442	15,442
<b>Balance at 31 December 2017</b>	<u>98,680</u>	<u>775</u>	<u>(22,944)</u>	<u>76,511</u>
<b>Changes in equity</b>				
Profit for financial year	-	-	19,653	19,653
<b>Balance at 31 December 2018</b>	<u>98,680</u>	<u>775</u>	<u>(3,291)</u>	<u>96,164</u>

The notes form part of these financial statements

## ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 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. Goodwill and intangible fixed assets**

The Group establishes a reliable estimate of the useful lives 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.

##### **ii. 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.

##### **iii. 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 committed 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.

##### **iv. 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.

##### **v. Supplemental commission accrual**

The Group calculates an estimate at the year end to ascertain the 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.

## ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

#### 1. ACCOUNTING POLICIES - continued

##### vi. 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 18.

##### 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. Where there is an expectation of future servicing requirements, a proportion of income relating to the policy is deferred to cover the associated obligations under the policy contract.

##### 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.

##### 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 a maximum of 10 years
Expiration lists	- over a maximum of 5 years
Computer software	- over 3 to 5 years

##### 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 3 - 10 years
Computer equipment	- over 3 - 5 years

## ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

#### 1. ACCOUNTING POLICIES - continued

##### **Fixed asset investments**

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

##### **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 clients 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 Statement of Comprehensive Income 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 and that the economic benefit can be reliably measured.

##### **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.

# ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

### 2. TURNOVER

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

	2018 £'000	2017 £'000
<b>An analysis of turnover by class of business is given below:</b>		
Net Brokerage	134,999	126,491
Fees	66,861	65,506
Commission	<u>20,278</u>	<u>22,044</u>
	<u>222,138</u>	<u>214,041</u>
 <b>An analysis of turnover by geographical market is given below:</b>		
UK	218,010	209,511
Europe	2,372	3,046
North America	1,157	1,030
Other Countries	<u>599</u>	<u>454</u>
	<u>222,138</u>	<u>214,041</u>

### 3. STAFF COSTS

The amounts relating to staff costs were incurred by Arthur J. Gallagher Services (UK) Limited. An amount of £114,815k (2017:£112,113k) was recharged back to the Company, and is accounted for in administrative expenses.

### 4. DIRECTORS' REMUNERATION

	2018 £'000	2017 £'000
Directors' remuneration	2,068	1,701
Directors' pension contributions to money purchase schemes	<u>12</u>	<u>18</u>
	<u>2,080</u>	<u>1,719</u>

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

Money purchase schemes	<u>2</u>	<u>2</u>
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Information regarding the highest paid Director is as follows:

	2018 £'000	2017 £'000
Director's remuneration	1,041	674
Director's pension contributions to money purchase schemes	<u>8</u>	<u>8</u>
	<u>1,049</u>	<u>682</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 remunerations are recharged to the Company and accounted for in administrative expenses.



**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**5. OPERATING PROFIT**

The operating profit is stated after charging:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Goodwill amortisation	4,384	7,617
Expiration lists amortisation	955	845
Computer software amortisation	165	145
Depreciation – owned assets	1,142	1,041
Impairment of amount owed by group undertaking	-	4,699
Auditors' remuneration		
- statutory audit	233	244
- audit related assurance services	168	209
Land and building operating leases	8,528	9,026
Foreign exchange differences	<u>51</u>	<u>289</u>

**6. INVESTMENT INCOME**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Dividend income	<u>-</u>	<u>120</u>

**7. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Bank Interest	292	30
Interest on loans to group undertakings	<u>79</u>	<u>2,439</u>
	<u>371</u>	<u>2,469</u>

**8. INTEREST PAYABLE AND SIMILAR EXPENSES**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Interest on loans from group undertakings	<u>5</u>	<u>539</u>

**9. TAXATION**

**Analysis of the tax charge**

The tax charge on the profit for the year was as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax:</b>		
UK corporation tax	5,509	5,065
Adjustment in respect prior years	<u>(358)</u>	<u>(298)</u>
Total current tax	<u>5,151</u>	<u>4,767</u>
<b>Deferred tax:</b>		
Timing differences	419	946
Impact of tax rate changes	(45)	(21)
Adjustments in respect of prior years	<u>50</u>	<u>(107)</u>
Total deferred tax	<u>424</u>	<u>818</u>
<b>Tax on profit</b>	<u><b>5,575</b></u>	<u><b>5,585</b></u>

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**9. TAXATION - continued**

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Profit before tax – continuing operations	<u>25,228</u>	<u>21,027</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%)	4,793	4,048
<b>Effects of:</b>		
Expenses not deductible for tax purposes	1,144	2,580
Effect of group relief/other relief	-	(217)
Transfer pricing agreements	(9)	(400)
Adjustment from previous periods	(308)	(405)
Tax rate changes	<u>(45)</u>	<u>(21)</u>
Total tax charge	<u>5,575</u>	<u>5,585</u>

The Company profits are taxable in the UK under the standard rate of corporation tax being 19.00% (2017: 19.25%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government has legislated to reduce the main rate of corporation tax 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.

**10. INTANGIBLE FIXED ASSETS**

	<b>Goodwill</b>	<b>Expiration</b>	<b>Computer</b>	<b>Assets</b>	<b>Totals</b>
	<b>£'000</b>	<b>lists</b>	<b>software</b>	<b>under</b>	<b>£'000</b>
		<b>£'000</b>	<b>£'000</b>	<b>construction</b>	
				<b>£'000</b>	
<b>COST</b>					
At 1 January 2018	107,320	4,231	3,064	19	114,634
Additions	-	-	-	101	101
Transfer	-	-	559	(120)	439
At 31 December 2018	<u>107,320</u>	<u>4,231</u>	<u>3,623</u>	<u>-</u>	<u>115,174</u>
<b>AMORTISATION</b>					
At 1 January 2018	101,474	2,155	2,594	-	106,223
Amortisation for year	4,384	955	165	-	5,504
At 31 December 2018	<u>105,858</u>	<u>3,110</u>	<u>2,759</u>	<u>-</u>	<u>111,727</u>
<b>NET BOOK VALUE</b>					
At 31 December 2018	<u>1,462</u>	<u>1,121</u>	<u>864</u>	<u>-</u>	<u>3,447</u>
At 31 December 2017	<u>5,846</u>	<u>2,076</u>	<u>470</u>	<u>19</u>	<u>8,411</u>

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**11. TANGIBLE FIXED ASSETS**

	<b>Leasehold improvements £'000</b>	<b>Fixtures and fittings £'000</b>	<b>Motor vehicles £'000</b>	<b>Computer equipment £'000</b>	<b>Totals £'000</b>
<b>COST</b>					
At 1 January 2018	6,829	2,265	307	5,299	14,700
Additions	1,417	67	-	228	1,712
Disposals	-	-	(307)	-	(307)
Transfer	-	-	-	2	2
At 31 December 2018	<u>8,246</u>	<u>2,332</u>	<u>-</u>	<u>5,529</u>	<u>16,107</u>
<b>DEPRECIATION</b>					
At 1 January 2018	2,546	1,497	307	4,856	9,206
Charge for year	604	126	-	412	1,142
Eliminated on disposal	-	-	(307)	-	(307)
Transfer	-	-	-	(1)	(1)
At 31 December 2018	<u>3,150</u>	<u>1,623</u>	<u>-</u>	<u>5,267</u>	<u>10,040</u>
<b>NET BOOK VALUE</b>					
At 31 December 2018	<u>5,096</u>	<u>709</u>	<u>-</u>	<u>262</u>	<u>6,067</u>
At 31 December 2017	<u>4,283</u>	<u>768</u>	<u>-</u>	<u>443</u>	<u>5,494</u>

**12. FIXED ASSET INVESTMENTS**

	<b>Shares in group undertakings £'000</b>
<b>COST</b>	
At 1 January 2018 and 31 December 2018	<u>890</u>
<b>NET BOOK VALUE</b>	
At 31 December 2018	<u>890</u>
At 31 December 2017	<u>890</u>

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

<b>Name of Company</b>	<b>Registered Address</b>	<b>Holding</b>	<b>Proportion of shares held</b>
Carrick Neill and Co. Limited	Spectrum Building	Ordinary Shares	100.00%
CBG Group Limited	The Walbrook Building	Ordinary Shares	100.00%
CBG Insurance Brokers Limited	The Walbrook Building	Ordinary Shares	100.00%
Flysurre Limited*	The Walbrook Building	Ordinary Shares	100.00%
Marcus Hearn & Co (Travel & Aviation) **	The Walbrook Building	Ordinary Shares	100.00%
Crosbie & Jack Insurance Services Limited***	Spectrum Building	Ordinary Shares & C Shares	100.00%
Dickson Insurance Brokers Limited	The Walbrook Building	Ordinary Shares	100.00%
Robinson Leslie Limited	The Walbrook Building	Ordinary Shares	100.00%
Igloo Insurance PCC Limited	Heritage Hall	Ordinary Shares	100.00%

\*Held indirectly

\*\*Company dissolved April 2019

\*\*\*Company dissolved June 2019

<b>Registered Address</b>	<b>Street Address</b>
Spectrum Building	7 <sup>th</sup> Floor, 55 Blythswood Street, Glasgow, G2 7AT
The Walbrook Building	25 Walbrook, London, EC4N 8AW
Heritage Hall	PO Box 230, Le Marchant Street, Guernsey, GY1 4JH

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**13. DEBTORS**

	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	129,183	114,959
Amounts owed by group undertakings	50,105	44,981
Other debtors	596	288
Deferred tax asset	2,850	3,275
Prepayments and accrued income	<u>10,131</u>	<u>9,096</u>
	<b><u>192,865</u></b>	<b><u>172,599</u></b>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by group undertakings	<u>-</u>	<u>6,701</u>
<b>Aggregate amounts</b>	<b><u>192,865</u></b>	<b><u>179,300</u></b>

Contained within trade debtors is £1,672k (2017: £605k) relating to trading with group entities.

Amounts owed by 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
£6,088k	0%	Non-compounding. Interest charge up to 31 Dec 2017. Thereafter from 1 Jan 2018 interest at 0%	Repayable on demand.	£6,780k

	<b>Deferred tax £'000</b>
Balance at 1 January 2018	3,275
Adjustment in respect of prior years	(50)
Deferred tax charge	<u>(375)</u>
Balance at 31 December 2018	<b><u>2,850</u></b>

**Deferred tax**

The above deferred tax asset represents fixed asset timing differences of £2,214k (2017: £2,634k) and short term timing differences of £636k (2017: £641k). The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and therefore not quantifiable.

**14. CASH AT BANK**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Restricted cash	134,775	136,469
Other cash and cash equivalents	<u>11,408</u>	<u>16,432</u>
	<b><u>146,183</u></b>	<b><u>152,901</u></b>

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.

**ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	193,556	192,641
Amounts owed to group undertakings	42,497	55,660
Corporation tax	2,151	3,944
Group relief creditor	3,358	1,121
Other creditors	174	339
Accruals and deferred income	<u>4,544</u>	<u>4,499</u>
	<b><u>246,280</u></b>	<b><u>258,204</u></b>

Contained within trade creditors is £27,874k (2017: £23,630k) 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:

<b>Aggregate loan value</b>	<b>Interest rate</b>	<b>Interest terms</b>	<b>Repayment period</b>	<b>Aggregate carrying value</b>
£1,509k	0%	Compounded annually. Interest charge up to 31 Dec 2017. Thereafter from 1 Jan 2018 interest at 0%	Repayable on demand.	£1,802k
£3,072k	0%	Compounded annually. Interest charge up to 31 Dec 2017. Thereafter from 1 Jan 2018 interest at 0%	Repayable on demand.	£3,289k

The 2017 Accruals and deferred income balance of £4,499k has been restated to include £2,460k from Trade creditors to better reflect the nature of the transactions.

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to group undertakings	<u>-</u>	<u>5,091</u>

**17. OPERATING LEASE COMMITMENTS**

Minimum lease payments under non-cancellable operating leases in the name of the Company fall due as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	613	588
Between one and five years	1,915	1,382
In more than five years	<u>1,322</u>	<u>844</u>
	<b><u>3,850</u></b>	<b><u>2,814</u></b>

**18. PROVISIONS FOR LIABILITIES**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Other provisions	<u>7,008</u>	<u>7,190</u>

# ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

### 18. PROVISIONS FOR LIABILITIES - continued

	Errors and omissions provision £'000	Future servicing and claims handling costs £'000	Onerous lease provision £'000	Policy cancellation reserve £'000	Property dilapidation provision £'000	Total £'000
At 1 January 2018	547	2,035	652	926	3,030	7,190
Incurred during year	998	3,066	727	877	465	6,133
Released during year	(403)	-	(188)	-	(143)	(734)
Utilised during year	(639)	(3,012)	(755)	(926)	(145)	(5,477)
Transferred during the year	(104)	-	-	-	-	(104)
At 31 December 2018	<u>399</u>	<u>2,089</u>	<u>436</u>	<u>877</u>	<u>3,207</u>	<u>7,008</u>

#### Errors and 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.

#### Onerous Lease provision

The Company has provided for a provision based on the remaining costs of the leases for the unoccupied space on 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.

#### 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 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.

## ARTHUR J. GALLAGHER INSURANCE BROKERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

#### 19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	2018 £'000	2017 £'000
Number:	Class:			
98,680,168	Ordinary shares	£1	<u>98,680</u>	<u>98,680</u>

The Ordinary shares shall confer on each holder thereof the right to receive notice of and to attend, speak and vote on all matters at all general meetings of the Company.

#### 20. RESERVES

Called Up Share Capital - represents the nominal value of shares that have been issued.

Share Premium - this reserve records the amount above the nominal value received for shares issued, less transaction costs.

Retained Earnings - includes all current and prior period profits and losses.

#### 21. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The immediate parent company is Rio 588, 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 holding company. 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.

#### 22. EVENTS AFTER THE REPORTING PERIOD

The Directors confirm that there are no events after the reporting period that are required to be disclosed.