HEATH LAMBERT LIMITED

Annual report and Financial Statements

31 December 2011

REGISTERED NUMBER 1199129

HEATH LAMBERT LIMITED
Company number 1199129 Registered in England & Wales

DIRECTORS
Sarah Dalgarno
Mike Cooper Mitchell
Pat Gallagher
Tom Gallagher
Mark Mugge
Terry O'Neill
Matthew Pike
David Ross

SECRETARY
A Pfitzner

AUDITORS
Ernst & Young LLP
1 More London Place
London
SE1 2AF

BANKERS
Royal Bank of Scotland
3rd Floor
280 Bishopsgate
London EC2M 4RB

REGISTERED OFFICE
9 Alie Street
London
E1 8DE

COMPANY NUMBER
1199129

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors submit their annual report together with the audited Financial Statements of Heath Lambert Limited for the year ended 31 December 2011

Principal activities

The principal activity of the Company, an accredited Lloyd's Broker, continues to be that of insurance broking and the provision of a full range of insurance broking services primarily in the United Kingdom Heath Lambert Limited is authorised and regulated by the Financial Services Authority

Results and dividends

The Company made a profit after taxation for the year of £14 1m (2010 £7 1m) Interim dividends of £77 9m (2010 £nil) were paid during the year A loss of £63 8m (2010 profit £7 1m) has been transferred to reserves

The Company had net assets of £21 3m as at 31 December 2011 (2010 £85 2m)

Parent company

On 12 May 2011, the entire issued share capital of the ultimate holding company, HLG Holdings Limited, of which this company is a subsidiary, was acquired by Arthur J Gallagher Holdings Two (UK) Limited, a subsidiary of the largest group of undertakings which is headed up by Arthur J Gallagher & Co a company incorporated in the United States of America, which is the ultimate parent undertaking

Future Outlook

Trading conditions remain difficult and uncertainty in the EU makes forecasting growth in the UK economy difficult for 2012, we anticipate a generally unchanged climate

Risk Management

Robust risk management is fundamental to the achievement of the Company's objectives The Board of Directors is responsible for setting the Company'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 by the Company To facilitate this, the Company maintains a Risk Framework, through which the key risks affecting the Company are identified, assessed and monitored

Risk Framework

The nature of 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, counter party 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 the use of financial instruments to fix currency rates

Borrowing Facilities and Liquidity Risk

The company maintains facilities to ensure that it has adequate available funds to finance operations and the growth of the business The company has a core uncommitted overdraft facility of £250k The overdraft has not been drawn down upon in 2011

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Interest Rate Risk
The company 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 an investment and counterparty policy agreed by the Board of Directors, and, in respect of fiduciary funds, all relevant regulatory guidelines Investment and bank counterparties are subject to pre-approval at Board level All exposures to individual counterparties are subject to a limit to control undue concentrations of credit risk

Price Risk
The company does not have a material exposure to equity securities price risk or commodity price risk

Personnel
Information on the Company's activities and consultation with staff is provided regularly through various management communication channels These include the circulation of internal bulletins, notices and press releases and meetings and presentations by senior management at major locations and provincial offices The Company is committed to the principle of equal opportunity and ensuring that employees are not discriminated against in recruitment, career development or promotion

Consultation with employees and their representatives continues at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole

Disabled employees
It is the policy of the Company not to discriminate between employees or potential employees with disabilities because of a reason relating to their disability and to offer the same employment opportunities, training, career development and promotion prospects to all

Payment to suppliers
The Company conformed wherever possible to the payment terms agreed with its suppliers

Donations
During the period donations to charities by the Company amounted to £3,795 (2010 £15,395) In addition, there were no political donations during the period (2010 £nil)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Directors
The directors of the Company who held office during the period and to the date of this report were

A Colosso (resigned 16 January 2012)

K Hamill (resigned 12 May 2011)

J Hume (resigned 12 May 2011)

R N Thomas (resigned 12 May 2011)

W D Bloomer (resigned 12 May 2011)

K Barton (appointed 12 May 2011, resigned 31 August 2011)

D Ross (appointed 12 May 2011)

S Dalgarno (appointed 12 May 2011)

M Pike (appointed 6 July 2011)

T J Gallagher (appointed 6 July 2011)

J P Gallagher (appointed 6 July 2011)

T O'Neill (appointed 6 July 2011)

M Cooper-Mitchell (appointed 6 July 2011)

Mark Mugge (appointed 6 July 2011)

Disclosure of information to auditors
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing this report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and that the auditor is aware of that information

Auditors
Ernst & Young LLP were appointed as the Company's independent auditor on 13 May 2011
In accordance with Section 487 of the Companies Act 2006, a resolution to re-appoint Ernst & Young LLP as independent auditors to the Company will be proposed at the next Annual General Meeting on 01 June 2012

STATEMENT OF DIRECTORS' RESPONSIBLITIES

The directors are responsible for preparing the 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 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 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 judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

By order of the board

Mark Mugge
Director

12 June 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEATH LAMBERT LIMITED

We have audited the financial statements of Heath Lambert Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20 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 auditors' 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 Statement of Directors' Responsibilities set out on page 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 (APB'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 annual report to identify material inconsistencies with the audited financial statements 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 2011 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEATH LAMBERT LIMITED (continued)

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

Kevin Senior (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
London, 12 June 2012

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

	Notes	2011 £m	Restated 2010 £m
Turnover	2,4	**70.1**	77 9
Interest receivable and similar income	4	**1.8**	1 6
Total income		**71.9**	79 5
Administrative expenses			
Administrative expenses	3	**(75.0)**	(69 1)
Depreciation and goodwill amortisation	8,9	**(3.7)**	(4 2)
Total Administrative Expenses		**(78.7)**	(73 3)
Operating (Loss) / Profit		**(6.8)**	6 2
Loss on disposal of fixed assets	9	**(1.1)**	-
Operating (Loss) / Profit after exceptional items		**(7.9)**	6 2
Analysed as:			
Trading results		**(4.2)**	10 4
Depreciation and goodwill amortisation		**(3.7)**	(4 2)
Dividends received from fellow subsidiary undertakings	7	**19.6**	3 3
Profit on Ordinary Activities before Taxation		**11.7**	9 5
Tax credit/ (charge) on profit on ordinary activities	6	**2.4**	(2 4)
Profit for the financial year		**14.1**	7 1

Results for the current year and prior period are attributable to continuing operations

There is no material difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis

The notes on pages 10 to 23 are an integral part of these financial statements The independent auditors' report is on pages 6 and 7

BALANCE SHEET
As at 31 December 2011

	Notes	2011 £m	2010 £m
Fixed Assets			
Intangible assets	8	**4.6**	3 5
Tangible assets	9	**3.4**	5 6
Investments in subsidiary undertakings	10	**8.0**	9 3
Total fixed assets		**16.0**	18 4
Current Assets			
Debtors			
- Amounts falling due within one year	11	**144.4**	177 9
- Amounts falling due after more than one year	11	**5.7**	5 0
Cash at bank and in hand	13	**41.0**	48 8
Total current assets		**191.1**	231 7
Creditors: Amounts falling due within one year	14	**(177.5)**	(159 1)
Net Current Assets		**13.6**	72 6
Total Assets Less Current Liabilities		**29.6**	91 0
Provisions for liabilities	15	**(8.3)**	(5 8)
Net Assets		**21.3**	85 2
Capital and Reserves			
Share capital	16	**7.5**	7 5
Other reserve	17	-	0 1
Profit and loss account	17	**13.8**	77 6
Total capital and reserves		**21.3**	85 2

Approved by the Board of directors on 12 June 2012 and were signed on its behalf by

Mark Mugge
Director

The notes on pages 10 to 23 are an integral part of these financial statements The independent auditors' report is on pages 6 and 7

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

1. ACCOUNTING POLICIES

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

The company is a wholly-owned subsidiary of Arthur J Gallagher Holdings II Limited and is included in the consolidated financial statements of Arthur J Gallagher & Co which are publically available These financials therefore do not include consolidated financial statements

As permitted by Financial Reporting Standard 1 "Cash Flow Statements" (revised) the Company, being a wholly-owned subsidiary, is not required to prepare a cash flow statement 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 or investees of the Arthur J Gallagher & Co group

On 12 May 2011, the entire issued share capital of the ultimate holding company, HLG Holdings Limited, for which this company is a subsidiary, was purchased by Arthur J Gallagher Holdings Two (UK) Limited, a subsidiary of the largest group of undertakings which is headed up by Arthur J Gallagher & Co a company incorporated in the United States of America, which is the ultimate parent undertaking

The directors have reviewed the Company's accounting policies and consider them to be appropriate in accordance with FRS18's objectives of relevance, reliability, comparability and understandability

The directors are satisfied that the Company should prepare the financial statements on a going concern

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 Group 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

Income has been recognised from the writing back of some specific old run off credit items on the insurance broking ledgers which, in the directors' opinion, following investigation during the period, do not represent insurance broking liabilities of the Company

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

1. ACCOUNTING POLICIES (Continued)

Investment income
Dividends receivable from participating interests are recognised as income when formally declared

Finance 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

Operating Leases
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

Goodwill
Goodwill arising from business combinations, being the excess of the fair value of the consideration over the fair value of the net assets acquired, and purchased goodwill, have been capitalised at cost and are being amortised on a straight-line basis over their estimated useful lives not exceeding twenty years

Negative goodwill arising from business combinations, being the excess of the fair value of the net assets over the fair value of the consideration acquired, has been capitalised at cost and has been fully amortised on a straight-line basis over its estimated useful life of 3 5 years

Fixed Assets
Tangible assets are stated at cost less accumulated depreciation Following the acquisition of the Heath Group the company has adopted the Arthur J Gallagher policy of capitalising assets with a cost price over £500, the effect of adopting this policy produced a reduction of NBV of £381,018 in tangible fixed assets with a corresponding loss on the "Profit and Loss Statement"

Depreciation is provided in equal annual instalments at rates calculated to provide for the cost of the assets over their anticipated useful lives as follows

Furniture and equipment – Four 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 £1,000 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

Investments in Subsidiary Undertakings
Investments in subsidiary undertakings in the financial statements are stated at cost less provision for any impairment in value

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

1. ACCOUNTING POLICIES (Continued)

Taxation
Corporation tax payable is provided on taxable profits at the current rate

Deferred taxation is recognised in respect of all timing differences between taxable and booked income and expenditure that have originated but not reversed at the balance sheet date Deferred tax assets are recognised to the extent that they are recoverable Deferred taxation is not recognised on permanent differences or for taxation which would become payable if the undistributed reserves of overseas companies were remitted to the UK Deferred tax balances are not discounted

Pensions
The Company operates defined contribution pension schemes for the benefit of its employees Contributions are charged to the profit and loss account as incurred

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

Insurance Broking Debtors and Creditors
Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, are generally not liable as principals for amounts arising from such transactions Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities This recognises that the insurance broker is entitled to retain the investment income on any cash flow arising from these transactions

Debtors and creditors arising from a transaction between clients and insurers (e g a premium or a claim) are recorded simultaneously Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and insurance broking creditors

The position of the insurance broker as agent means that generally the credit risk is borne by the principals There can be circumstances where the insurance broker acquires credit risk through statute, or through the act or omission of the insurance broker or of one of the principals There is much legal uncertainty surrounding the circumstances and the extent of such exposures However, the total of insurance broking debtors appearing in the balance sheet is 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 Large changes in both insurance broking debtors and creditors can result from comparatively small cash settlements and 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 of debtors and creditors is uncertain and in the event of an insolvency it is generally abandoned FRS 5 'Reporting the Substance of Transactions' 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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

1. ACCOUNTING POLICIES (Continued)

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 The basis of each class of provision is described in note 15

Claims handling provision
The company provides for the expected cost of providing future claims handling services in respect of its insurance and reinsurance broking activities by reference to the estimated number of claims and expected costs The provision is made in accordance with the requirements of FRS12 "Provisions, contingent liabilities and contingent assets"

2. SEGMENTAL REPORTING

The table below 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

	2011 £m	2010 £m
UK	**60.6**	66 9
Asia and Australasia	**1.2**	1 4
The Americas	**3.1**	2 4
Continental Europe	**5.1**	7 1
Africa	**0.1**	0 1
Total Turnover	**70.1**	77 9

The Company's turnover is attributable to insurance broking

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

3. OPERATING EXPENSES

Profit on ordinary activities before taxation is stated after charging the following items

	2011	2010
	£m	£m
Salaries	43 7	39 1
Other payroll cost	4 7	3 4
Pension	2 5	2 6
Other staff cost	1 8	2 2
Equipment lease cost	0 1	0 2
Travel	0 9	0 9
Entertaining	0 6	0 6
Car lease cost	1 6	1 8
Premises rent	5 1	4 9
Other premises cost	1 8	1 8
Insurance	1 4	1 4
Communication cost	1 7	1 7
Other computer costs	3 5	2 9
Other office cost	3 6	4 4
Audit fees	0 3	0 3
Legal fees	1 4	0 3
Bad debt expense	0 2	0 7
Sundry tax	1 7	1 2
Other expenses	1 6	1 6
Bank charges	0 4	0 4
Intercompany recharges	(3 6)	(3 2)
	75.0	69 1

Auditors' remuneration for audit services in relation to the audit of the Company amounted to £0 3m (2010 £0 3m) Non-audit fees amounted to £0 01m (2010 £0 01)

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011	2010
	£m	£m
Interest receivable	**1.8**	1 6

The 2010 interest receivable and similar income balance has been restated from £0 3m to £1 6m as it was identified that interest income had been incorrectly classified as Turnover The impact of the correction on the prior year profit and loss statement is to decrease turnover and increase interest receivable and similar income The correction of this classification error has no impact on operating profit, profit attributable to owners, retained earnings or net assets

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

5. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	2011 £m	2010 £m
Wages and salaries	**43.7**	39 1
Social security costs	**4.7**	3 4
Other pension costs	**2.5**	2 6
Share option national insurance costs	**0.5**	-
	51.4	45 1
The average number of employees during the year was	**1263**	1324

Directors' emoluments	**2011** £000	**2010** £000
Aggregate emoluments	2,987	887
Company contributions paid to money purchase schemes	83	83
Members of money purchase schemes	3	3
The amounts in respect of the highest paid director are		
Aggregate Emoluments	2,391	383
Company Contribution paid to money purchase schemes	38	37

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of (credit) / charge in the year

	2011 £m	2010 £m
Current tax		
UK corporation tax at blended rate of 26 5% (2010 28%)	-	0 9
Group relief surrendered for payment	(0.7)	-
Loss carried back to prior period	(0.8)	-
Adjustments in respect of prior years	(0.1)	-
Tax on profit on ordinary activities	(1.6)	0 9
Deferred tax		
Current year	(1.2)	0 8
Impact of rate change	0.4	0 2
Adjustment in respect of prior years	-	0 6
Total deferred tax (credit) / charge	(0.8)	1,5
Total taxation (credit) / charge	(2.4)	2,4

Reconciliation of corporation tax charge:

	2011 £m	2010 £m
Profit on Ordinary Activities before Taxation	11.7	9 5
Charge at standard rate of corporation tax in the UK of 26 5% (2010 28%)	3.1	2 7
The corporation tax charge for the year has been affected by		
Prior year adjustments	(0.1)	-
Expenses not deductible for tax purposes	0.4	0 2
Capital allowances in excess of depreciation	0.8	(0 8)
Non-taxable group dividends	(5.2)	(0 9)
Share scheme deduction	(1.1)	-
Investment write down	0.1	0 3
Adjustment in respect of transfer pricing	0.4	0 9
Group relief received for nil payment	-	(0 6)
Losses carried forward	0.4	-
Adjustment in respect of debt cap	(0.4)	(0 9)
Tax on Profit on Ordinary Activities	(1.6)	0 9

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued

	2011 £m	2010 £m
Deferred Taxation Asset		
Deferred taxation assets have been recorded as follows		
Accelerated capital allowances	**5.2**	4 9
Short term timing differences	**0.5**	0 1
	5.7	5 0

	2011 £m	2010 £m
Movements in Deferred Taxation Asset		
At 1 January 2011	**5.0**	6 5
Accelerated capital allowances	**0.7**	(0 8)
Tax losses	**0.4**	-
Effect of tax rate change on DT	**(0.4)**	(0 2)
Adjustments in respect of prior years	-	(0 6)
At 31 December 2011	**5.7**	5 0

The Company profits are taxable in the UK under the standard rate of corporation tax being 26 5% for 2011 (2010 28%) The Company is expected to continue to attract the standard rate of UK corporation tax The UK government legislated during 2011 to reduce the main rate of corporation tax to 25%, applicable from 1 April 2012, which has been reflected in the closing deferred tax position on the balance sheet Furthermore, the Government announced in March 2012 as part of the Budget a further reduction of 1% to 24% to apply from 1 April 2012, with additional reductions of 1% per annum falling to 22% with effect from 1 April 2014 These reductions have not been reflected in the closing deferred tax asset as they were not substantively enacted at the balance sheet date It is anticipated that the impact of the future changes on the closing deferred tax position would decrease the total recognised deferred tax asset by £685,600 in the Company

7. DIVIDENDS

	2011 £m	**2010** £m
Interim dividends received	19 6	3 3
	19 6	3 3

Dividends received from Heath Lambert Overseas Limited a 100% subsidiary £19,600,000 (2010 £3,300,000)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

8. INTANGIBLE ASSETS

	2011 Purchased Goodwill £m	2010 Purchased Goodwill £m
Cost		
At 1 January 2011	7 5	7 8
Additions	1 7	0 1
Disposals	-	(0 4)
At 31 December 2011	**9.2**	**7.5**
Amortisation		
At 1 January 2011	3 9	3 4
Provided in the year	0 7	0 9
Disposals	-	(0 4)
At 31 December 2011	**4.6**	**3.9**
Net Book Value at 31 December 2011	**4.6**	**3.5**

9. TANGIBLE ASSETS

	Systems Development Costs £m	Furniture & Equipment £m	Total £m
Cost			
At 1 January 2011	12 9	9 9	22 8
Additions	1 4	0 4	1 8
Disposals	(1 4)	(1 1)	(2 5)
At 31 December 2011	**12.9**	**9.2**	**22.1**
Depreciation			
At 1 January 2011	10 1	7 1	17 2
Provided in the year	1 7	1 3	3 0
Disposals	(0 7)	(0 7)	(1 4)
At 31 December 2011	**11.1**	**7.7**	**18.8**
Net Book Value at 31 December 2011	**1.8**	**1.5**	**3.3**
Net Book Value at 31 December 2010	2 8	2 8	5 6

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

9. TANGIBLE ASSETS (continued)

Following the acquisition of the Heath Group the company has adopted the Arthur J Gallagher capitalisation criteria of capitalising assets with a cost price over £500, resulting in a reduction of the net book value of £381,018 of tangible fixed assets with the corresponding loss being recognised in the "Profit and Loss Statement"

The company has also adopted the Arthur J Gallagher criteria of capitalising IT development costs with a cost price over £1,000, generating a reduction in net book value of £692,588 with the corresponding loss being recognised in the "Profit and Loss Statement"

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£m
Cost	
At 1 January 2011	**20.0**
Additions during the year	-
Transfer of investment to subsidiary	0 8
Cost at 31 December 2011	**19.2**
Impairment	
At 1 January 2011	10 7
Provided in the year	0 5
At 31 December 2011	**11.2**
Net Book Value at 31 December 2011	**8.0**
Net Book Value at 31 December 2010	9 3

Details of the Company's principal subsidiary undertakings are shown below

Subsidiary undertaking	Country of incorporation	Holding	Percentage of holding	Activity
Heath Lambert Overseas Limited	United Kingdom	Ordinary	100%	Holding Company
Gallagher Benefit Consulting Limited	United Kingdom	Ordinary	100%	Employee Benefits Consultancy

In the opinion of the directors the value of the investments is at least equal to the total amounts shown above

At 31 December 2010 the company has a 10% investment in Fenchurch Faris Limited, a company incorporated in the Isle of Man, the ownership of this investment sits on Heath Lambert Overseas Limited which is a 100% subsidiary of Heath Lambert Limited During 2011 this investment has been transferred to Heath Lambert Overseas The value of the investment transferred is £0 8m (2010 £0 8m)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (continued)

The net book value of furniture and equipment included in fixed assets held under finance leases was £nil at 31 December 2011 (2010 £0 1m) The depreciation charge during 2011, in respect of these leased assets, was £0 1 (2010 £0 1m)

11. DEBTORS

	2011 £m	2010 £m
Amounts Falling Due Within One Year		
Insurance broking debtors	**126.6**	105 1
Unrealised brokerage	**10.4**	11 5
Amounts due from fellow subsidiary undertakings of ultimate parent company	**4.2**	57 2
Other debtors	**1.6**	0 3
Prepayments and accrued income	**1.6**	3 9
	144.4	178 0
Amounts Falling Due After More Than One Year		
Deferred taxation (see note 6)	**5.7**	5 0
Total Debtors	**150.1**	183 0

12 NET FIDUCIARY ASSETS

	2011 £m	2010 £m
Insurance broking debtors (note 11)	**126.6**	105 1
Fiduciary cash and deposits (note 13)	**35.8**	42 9
Insurance broking creditors (note 14)	**(162.4)**	(148 0)
Net Fiduciary Assets	**-**	-

The above fiduciary assets and liabilities are included on the balance sheet Fiduciary cash and deposits are held for the benefit of insurance broking creditors and are not available for general corporate purposes

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

13. CASH AT BANK AND IN HAND

	2011 £m	2010 £m
Cash and deposits - corporate	**2.0**	2 2
Cash not yet withdrawn from fiduciary bank accounts	**3.2**	3 7
Fiduciary cash and deposits	**35.8**	42 9
Cash and Deposits - Total	**41.0**	48 8

In accordance with FSA requirements, the Company's hold monies in insurance broking bank accounts for the benefit of insurance broking creditors, which are not available for general corporate purposes At 31 December 2011, these amounted to £39 0 (2010 £46 6m), of which £3 2m (2010 £3 7m) was available for general corporate use but had not been withdrawn

14. CREDITORS

	2011 £m	2010 £m
Amounts Falling Due Within One Year		
Insurance broking creditors	**162.4**	148 0
Amounts due to group undertakings	**7.0**	0 3
Corporation tax	**-**	0 9
Other taxation and social security	**1.9**	1 6
Obligations under finance leases	**-**	0 1
Other creditors	**0.7**	3 6
Accruals and deferred income	**5.5**	4 6
	177.5	159 1

Other creditors falling due within one year include £0 4m (2010 £0 4m) of outstanding pension contributions

15. PROVISIONS FOR LIABILITIES

	Claims handling £m	**Property costs £m**	**Litigation provisions £m**	**Total £m**
At 31 December 2010	4 3	0 5	1 0	5 8
Utilised in the period	-	(0 3)	(0 6)	(0 9)
Provided in the year	2 2	-	1 2	3 4
At 31 December 2011	**6.5**	**0.2**	**1.6**	**8.3**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

15. PROVISIONS FOR LIABILITIES (continued)

Property costs
This provision is the estimated liability in respect of wear and tear on the Company's leasehold properties as at 31 December 2011, 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 Group 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 company provides for the expected cost of providing future claims handling services in respect of its insurance and reinsurance broking activities by reference to the estimated number of claims and expected costs The provision is made in accordance with the requirements of FRS12 "Provisions, contingent liabilities and contingent assets"

16. SHARE CAPITAL

	2011	2010
	£m	£m
7,500,000 authorised, allocated and fully paid up ordinary shares of £1 each	**7.5**	7 5

17. RESERVES

	Profit and loss account	**Share option reserve**	**Total**
	£m	**£m**	**£m**
As at 31 December 2010	77 6	0 1	77 7
		(0 1)	(0 1)
Profit for the year	14 1	-	14 1
Dividends paid	(77 9)	-	(77 9)
At 31 December 2011	**13.8**	-	**13.8**

Interim dividends paid to the immediate parent company, Friary Intermediate Limited £77,889,085 (2010 nil)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

18. COMMITMENTS

Annual commitments in 2011 for operating leases which expire	Land and Buildings 2011 £m	Land and Buildings 2010 £m
Within one year	**0.2**	0 1
In the second to fifth years inclusive	**2.7**	1 5
In more than five years	**-**	1 4
	2.9	3 0

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

Obligations under finance leases due	2011 £m	2010 £m
Within one year	**-**	0 1
	-	0 1

There was no capital commitments entered into as at 31 December 2011 (2010 nil)

19. POST BALANCE SHEET EVENTS

The directors are not aware of any significant events arising after the balance sheet date that require disclosure or adjustments to amounts included within the financial statements, outside of the change in tax rates as disclosed in note 6

20. ULTIMATE PARENT COMPANY

The immediate parent company is Friary Intermediate Ltd , 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