STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 FOR RISK & REWARD GROUP (HOLDINGS) LIMITED

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RISK & REWARD GROUP (HOLDINGS) LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2016

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RISK & REWARD GROUP (HOLDINGS) LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS:	T Johnson P Holden L Lemenager
SECRETARY:	W McGowan
REGISTERED OFFICE:	The Walbrook Building 25 Walbrook London EC4N 8AW
REGISTERED NUMBER:	04093521 (England and Wales)
INDEPENDENT AUDITOR:	Ernst & Young LLP Statutory Auditor 25 Churchill Place Canary Wharf London E14 5EY

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

REVIEW OF BUSINESS

The principal activity of the Company in the period under review was that of a holding company whose subsidiaries carried on the business of employee benefits consultancy and independent financial advisory. 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 2016 are set out in the financial statements on pages 6 to 13. During the year the Company has authorised, issued and fully paid 1,719,777,200 shares of £0.01 each. The Company also purchased 100% of the share capital of Orb Financial Services Limited and Argentis Financial Group Limited for £23,148k, including future purchase price obligations of £5,749k.

For the year ended 31 December 2016 the Company has recorded a loss before tax of £730k compared to neither a profit nor a loss before tax in 2015. The principal driver of this loss was costs incurred in the acquisition process of new subsidiaries.

PRINCIPAL RISKS AND UNCERTAINTIES

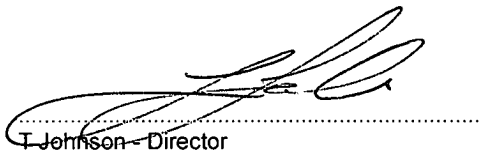
The Group's international operations and debt profile expose it to a variety of financial risks including the effects of change in foreign currency exchange rates, counterparty credit risks, compliance risks, liquidity and interest rates. The Group's Board of Directors are responsible for setting the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

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

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

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

BY ORDER OF THE BOARD:



T Johnson - Director

Date: 26 May 2017

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

DIRECTORS OF THE COMPANY

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

T Johnson
P Holden

Other changes in Directors holding office are as follows:

L Lemenager - appointed 19 April 2016

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2016 (2015: £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;
- 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 AUDITOR

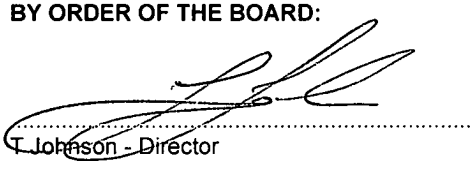
So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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:



T Johnson - Director

Date: 26 May 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RISK & REWARD GROUP (HOLDINGS) LIMITED

We have audited the financial statements of Risk & Reward Group (Holdings) Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the account records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

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

Date: 9 June 2017

RISK & REWARD GROUP (HOLDINGS) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
Administrative expenses		(754)	-
OPERATING LOSS	3	(754)	-
Interest receivable and similar income		24	-
LOSS BEFORE TAXATION		(730)	-
Tax on loss	4	69	-
LOSS FOR THE FINANCIAL YEAR		(661)	-
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(661)	-

The notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2016

	Notes	£'000	2016 £'000	£'000	2015 £'000
FIXED ASSETS					
Investments	5		35,444		12,296
CURRENT ASSETS					
Debtors	6	2,887		4,605	
Cash at bank		272		-	
		3,159		4,605	
CREDITORS					
Amounts falling due within one year	7	3,951		4,642	
NET CURRENT LIABILITIES			(792)		(37)
TOTAL ASSETS LESS CURRENT LIABILITIES			34,652		12,259
CREDITORS					
Amounts falling due after more than one year	8		107		-
PROVISIONS FOR LIABILITIES	9		5,749		-
NET ASSETS			28,796		12,259
CAPITAL AND RESERVES					
Called up share capital	10		29,523		12,325
Share premium	11		100		100
Retained earnings	11		(827)		(166)
SHAREHOLDERS' FUNDS			28,796		12,259

The financial statements were approved and authorised for issue by the Board of Directors on 26 May 2017 and were signed on its behalf by:

.....
T Johnson - Director

The notes form part of these financial statements

RISK & REWARD GROUP (HOLDINGS) LIMITED

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

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	7,070	100	(166)	7,004
Changes in equity				
Issue of share capital	5,255	-	-	5,255
Balance at 31 December 2015	12,325	100	(166)	12,259
Changes in equity				
Issue of share capital	17,198	-	-	17,198
Total comprehensive loss	-	-	(661)	(661)
Balance at 31 December 2016	29,523	100	(827)	28,796

The notes form part of these financial statements

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

ii. **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 9.

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

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.

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

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.

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1. **ACCOUNTING POLICIES - continued**

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.

2. **DIRECTORS' EMOLUMENTS**

	2016 £'000	2015 £'000
Aggregate emoluments	112	-

The amounts in respect of the highest paid Director are:

	2016 £'000	2015 £'000
Emoluments	112	-

3. **OPERATING LOSS**

The operating loss is stated after charging:

	2016 £'000	2015 £'000
Auditor's remuneration	10	-

4. **TAXATION**

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

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax	(69)	-
Tax on loss	(69)	-

UK corporation tax has been charged at 20%.

continued...

4. **TAXATION - continued**

Reconciliation of total tax credit included in profit and loss
The tax credit for the year can be reconciled to the loss per the Statement of Comprehensive Income as follows:

	2016 £'000	2015 £'000
Loss before tax	(730)	-
Loss multiplied by the standard rate of corporation tax in the UK of 20%	(146)	
Effects of:		
Expenses not deductible for tax purposes	77	-
Total tax credit	(69)	-

The Company profits are taxable in the UK under the standard rate of corporation tax being 20% (2015 20.25%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government legislated during 2016 to reduce the main rate of corporation tax to 19%, applicable from 1 April 2017 with a further reduction of 2% to 17% to apply from 1 April 2020.

5. **FIXED ASSET INVESTMENTS**

	Shares in group undertakings £'000
COST	
At 1 January 2016	12,296
Additions	23,148
At 31 December 2016	35,444
NET BOOK VALUE	
At 31 December 2016	35,444
At 31 December 2015	12,296

During the year the Company purchased 100% of the share capital of Orb Financial Services Limited and Argentis Financial Group Limited.

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

Name of Company	Country of registration	Holding	Proportion of shares held
Gallagher Risk & Reward Limited	England & Wales	Ordinary & Deferred Shares	100%
Shilling Limited	England & Wales	Ordinary Shares A, B & C	100%
Orb Financial Services Limited	England & Wales	Ordinary Shares	100%
Argentis Financial Group Limited	England & Wales	Ordinary A & B, Preference A & B	100%
Argentis Financial Management Limited *	England & Wales	Ordinary Shares	100%
Kingston Smith Financial Advisers Limited *	England & Wales	Ordinary Shares	50%
Argentis Wealth Management Limited *	England & Wales	Ordinary Shares	100%
Argentis Mortgages Limited *	England & Wales	Ordinary Shares	100%
Argentis Investment Management Limited *	England & Wales	Ordinary Shares	100%
Argentis Financial Services Limited *	England & Wales	Ordinary Shares	100%

* Held indirectly

The capital and reserves of Kingston Smith Financial Advisers Limited at 30 April 2016 were £512k.

The registered office address for all the Company's investments, with the exception of Kingston Smith Financial Advisers Limited, is The Walbrook Building, 25 Walbrook, London, EC4N 8AW. The registered office address for Kingston Smith Financial Advisers Limited is Devonshire House, 60 Goswell Road, London, EC1M 7AD.

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6. DEBTORS

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	72	4,605
Amounts falling due after more than one year:		
Amounts owed by group undertakings	2,815	-
Aggregate amounts	2,887	4,605

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

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£2,792k	6.19%	Compounded annually	10 years from commencement (2026) but the borrower can repay in whole or in part without penalty.	£2,815k

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Amounts owed to group undertakings	3,941	4,642
Accruals and deferred income	10	-
	3,951	4,642

Amounts owed to group undertakings are unsecured, repayable on demand and are on an interest free basis.

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

	2016 £'000	2015 £'000
Other creditors	107	-

9. PROVISIONS FOR LIABILITIES

	2016 £'000	2015 £'000
Other provisions	5,749	-

	Purchase price obligation provision £'000
Provided during year	5,749
Balance at 31 December 2016	5,749

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9. PROVISIONS FOR LIABILITIES - *continued*

Purchase price obligation provision
The Company has acquired the share capital of certain companies during the year. The acquisition agreements included obligations for certain future payments in relation to the performance of the acquired business. The Purchase price obligation provision is in relation to the estimated future amounts to be paid in respect of these contracts. Purchase price obligations are reallocated to Other creditors as they fall due. The future purchase price obligation amounts payable are:

Company purchased	Purchase price obligation
Orb Financial Services Limited	£1,603k payable during 2018
Argentis Financial Group Limited	£4,146k payable during 2018 and 2019

10. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2016 £'000	2015 £'000
2,952,317,582	Ordinary	£0.01	29,523	12,325

During the year the Company has authorised, issued and fully paid 1,719,777,200 ordinary shares of £0.01 each issued at par.

The ordinary shares carry rights to receive a dividend or other distribution of the Company. The ordinary shares shall entitle the holder thereof to any further or other right of participation in the assets of the Company on a winding up or other return of capital. They carry rights to vote at any general meeting on a show of hands or on a poll.

11. RESERVES

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

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

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

12. ULTIMATE PARENT UNDERTAKING

On 20 April 2016 the entire share capital of the Company transferred from Arthur J. Gallagher Holdings (UK) Limited to Gallagher Benefit Services (Holdings) Limited, a company registered in England and Wales, which is now the immediate parent undertaking. The largest group of undertakings of which the Company is a member and for which financial statements are prepared, is headed up by Arthur J. Gallagher & Co. a company incorporated in the United States of America, which is the ultimate parent undertaking. The registered address of Arthur J. Gallagher & Co. is 2850 W. Golf Rd., Rolling Meadows, IL 60008. A copy of these consolidated financial statements is available from the registered office of the Company.

13. EVENTS AFTER THE REPORTING PERIOD

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