BMS Associates Ltd

Report and Accounts

31 December 2011

BMS BMS Associates Ltd

Registered No 1494399

Directors

C J Hopton (Chairman)
C D Beardmore
R D Cooper
J Morley
P J Vincent

Secretary

J J F Hills

Auditor

Deloitte LLP
London

Registered Office

One America Square
London
EC3N 2L

Chairman's Statement

In 2009 we set ourselves the goal of doubling the size of our business by 2015 Last year I reported that we had taken a number of important steps towards achieving that target I am delighted to say that 2011 was another successful year

Our strategy is based on building four sustainable pillars to our business Reinsurance, Wholesale, Specialist Insurance and MGA platforms The progress we have made in each one gives us considerable confidence that we will be a successful, independent intermediary business in the highly-competitive insurance broking environment

In 2011 our focus has been on investing for the future, particularly the recruitment of the finest people, enhancing our client servicing offering and growing the BMS reputation We have strengthened our Reinsurance platform, built and restructured our Wholesale team and launched Pioneer, our MGA, which has made an impressive start We also undertook a detailed review of the way in which we serve clients and invested in new systems to enable us to handle increased volumes of business more effectively Finally we have worked hard to raise our profile both within the London market and internationally As a result we are now recognised as a business which is growing, innovative and client-focussed

In pursuance of our objective to remain independent we agreed to acquire, over the next two years, the entire shareholding of our only external shareholder AHJ Holdings Ltd Once these shares have been purchased the Group will be entirely employee-owned

The financial strength of our business is demonstrated by our ability to fund these investments from our own resources We have now put in place a banking facility to enable us to make further investments in the coming years

As we approach the future we are confident that we have the building blocks in place to create sustained success

Overall, it has been a year of significant change for BMS in which everyone has played an important part I would like to express my thanks both to existing employees and to our new hires for all their hard work

Christopher Hopton
Chairman

Chief Executive's Report

Progress is achieved in 2011

2011 has been a year of substantial progress, achieved by hard and effective work by our staff and considerable financial investment Key to this year was the expansion of our production and client servicing capabilities to ensure we continue towards our goal of becoming the acknowledged broker of choice 2011 saw us enhance and move our Reinsurance support services closer to the client, including modelling and actuarial services and the client servicing arm of the business We have enriched the mix of our excellent people and we will continue to focus our efforts on adding yet more superb people to the team

Testament to how much has been accomplished is what our clients have been saying about us In the last six months I have heard repeated compliments about our people and what high-calibre individuals they are It is their energy, enthusiasm and experience that is spreading the word of the redesigned BMS and getting audiences to listen In this people-orientated business, having individuals who are equipped not only with an impressive toolkit, but also with the deepest knowledge, enthusiasm and motivation to work harder for the client, guarantees we will continue to win new business

In the last six months we have won several Ward Top 50 accounts This demonstrates we can compete with the bigger brokers and succeed Having laid the groundwork in 2011, we are certain that 2012 will see yet more accounts move to BMS We offer something fresh and different to our competitors - making us stand out from the crowd

Other key achievements during 2011 include

- The expansion of our US platform new offices for our Chicago, Philadelphia and Minneapolis teams and significant growth in servicing and production staff on the ground
- Hiring industry-respected brokers for our Reinsurance and Wholesale divisions
- Creating an enviable operational centre in Minneapolis and moving our Reinsurance servicing closer to the client by beginning the transfer of the majority of this servicing out of London to the US
- Investment in our Actuarial and Modelling capabilities Building-out our Analytical Services offering with expert new hires to create a world-class team with an average of 15 years' experience and team leaders with over 25 years of market knowledge
- Launching Pioneer Underwriting, in partnership with Liberty Syndicates, with an initial premium capacity of £62 5m to underwrite a diverse portfolio of business
- Winning awards for technological innovation for our iPad initiative, including The London Market Award for Technological Initiative of the Year
- Completing the groundwork for the opening of our New York office in January 2012

BMS' investments of 2011 have changed our offering beyond recognition We are now in a position where we can compete effectively and convince clients that our independence, range of skill-sets and resources presents them with a compelling risk transfer partner - truly committed to providing them with the best solutions We have begun to reap the rewards of those investments in tangible business wins and a strong start to 2012 gives me confidence that it will be a transformational year for us BMS is now on an upward trajectory and has a momentum that is attracting people and clients towards us Our journey is on track and gaining pace

Carl Beardmore
Chief Executive Officer

Financial Review

2011 has firmly laid the foundations for the future growth that is a key element of our strategic plan The initial results of the investments have begun to come through and during the first quarter of 2012 we have made substantial progress in our revenue growth ambitions Over the last 18 months, we have invested £15m in developing our business and ensuring we are truly independent Our revenue for the 12 months to 31 March 2012 at £57 5m (unaudited) is 10% up on the equivalent prior period This represents excellent progress and supports the investment we have made over the last two years I will specifically comment on 2012 later in my report

The investments we have made both in developing our business and taking necessary restructuring action have inevitably impacted the results for 2011 These steps were taken using our own cash resources, which benefited from a strong improvement in the trading profit performance of our core business

Our key measure of profitability is Underlying EBITDA and during 2011 this was £7 8m which is 9% up on 2010 Excluding bonuses the profit on core business was 16% up After the restructuring charges and net investment in new teams we recorded a loss before tax of £2 1m

In April 2011 we launched Pioneer Underwriting In its first full year it has written £15m of gross premiums Pioneer provides the group with a commission income stream on the gross premium and a profit commission on the ultimate results of the portfolio This has had a modest impact on our revenue during 2011, but we expect it to strongly contribute during 2012

In addition, during 2011 we fulfilled a strategic goal when we reached agreement with AHJ Holdings Limited ("AHJ") to acquire the shares owned by AHJ This was structured in two tranches of £4m During 2011 and the first quarter of 2012 we acquired the first tranche of the AHJ holding and this share buyback resulted in a reduction in net assets of £4 2m at the year end We intend to acquire the balance of the AHJ shares during 2013

Trading performance

Our revenue for 2011 at £52 9m was 5% up on 2010 and Underlying EBITDA rose to £7 8m, an increase of 9% Staff and related costs amounted to 67% of our total cost base in 2011 and our headcount increased by 11% However, as highlighted in the Chief Executive's report, this masks the scale and breadth of developments that have been implemented, transforming the business

In 2011 our broking revenue was split as follows

- Reinsurance 54%
- Wholesale insurance 17%
- Specialist insurance 29%

Reinsurance
Our overall Reinsurance revenues fell by 3% during 2011 This was primarily driven by lower collection fees within our run-off services business A considerable proportion of the investment made during 2011 was in Reinsurance and we were extremely pleased with a number of significant new account wins, amounting to US$8m, for 2012

We have also continued to invest heavily in actuarial and catastrophe modelling capabilities ensuring we provide leading-edge services to our clients This investment will continue as we develop the business

Wholesale insurance
Wholesale revenues were 13% up on 2010 This is primarily the revenue from our new Risk Solutions team and we anticipate significant further gains in 2012 from this team

Financial Review (continued)

Specialist Insurance

Overall revenues in this division rose 14% on 2010 Marine and Aviation Finance generated 10% revenue growth and our Direct Marine business revenues grew by 22%, a third of which related to one-off income sources

MGA

Our overall MGA revenue was £1 3m We expect this to grow significantly in 2012, principally driven by Pioneer

Cash and liquid resources

At the year end we held a corporate cash balance of £2 0m and we had borrowings of £0 2m, which were repaid in March 2012 In May 2011 we were very pleased to arrange a new £10m three year revolving credit finance facility with Lloyds Bank Corporate Markets We did not utilise the facility during 2011, but we expect to do so during 2012 to manage peak cash flows

Net assets

The combination of the investment and costs associated with restructuring our business together with the share buyback has caused our consolidated balance sheet to shrink While this implies deterioration in our position in reality the current level of profit generated by the group and the availability of cash resources means that this snapshot position is not significant Our consolidated net asset position has considerably improved following the first quarter's trading and the net assets at 31 March 2012 are £7 2m (unaudited)

Foreign exchange

The US Dollar is the dominant currency for our revenue and we have continued to protect the sterling value of our revenue so that we can safeguard future earnings Given the favourable exchange rate and our breadth of banking relationships we continued to be active during 2011 and at the year end had future sales of US$164m which represent 2 5 years of 2011 Dollar net revenue at an average rate below $1 60 to the Pound

Pensions

Given a weak stock market and a reduction in yields on long term bonds the environment for pension schemes has been poor Against that background the accounting deficit in our two pension schemes has improved to £2 9m from £3 6m This reflected contributions of £2 1m, an investment return of £1 9m offset by an increase in the liabilities driven primarily by the requirements of the accounting standard to use year end market assumptions for bond yields and inflation In January 2010 we closed both schemes to future accrual

2012 and beyond

Our aspirations for 2012 are to significantly grow the business In Reinsurance we entered 2012 knowing that we had made substantial progress against our revenue growth target and we continue to work on a number of opportunities to further expand our client list and revenue base In Wholesale we grew the team during 2011 and now have all of the staff required to fulfil our ambitions for 2012 and beyond We are confident that we will show a healthy increase in revenue Our MGA business has also had an excellent start to 2012 and has already surpassed the revenue achieved in 2011

Financial Review (continued)

In summary, BMS has made significant progress in repositioning the group and has taken a number of positive steps to enhance the financial resources available to our business The business has delivered improved performance and we have continued to be proactive in protecting the future value of our dollar revenue and to manage our pension liabilities

We are confident that the group will post a strong financial performance in 2012 and beyond

Paul Vincent
Finance Director

Directors' Report

The directors present their Annual Report and audited accounts for the year ended 31 December 2011 which were approved at a meeting of the Board on 26 April 2012

Business review and future developments

The principal activity of the group is to operate as specialist insurance and reinsurance brokers

In July 2011 the Company reached agreement with AHJ Holdings Limited for the acquisition of its shareholding in the company which comprised 260 A ordinary shares (26% of class) and 51,663 B ordinary shares (20% of class)

The terms of the agreement give BMS Associates Limited the right to acquire the AHJ Holdings Limited shares for a consideration of £8 million The transaction is split into two Tranches, with the first Tranche split into two instalments of £2 million each plus interest from July 2011 to the date of payment The first instalment of the first Tranche, comprising 12,916 B ordinary shares, was purchased on 8 August 2011 and the second instalment of the first Tranche comprising 12,915 B ordinary shares was purchased on 23 March 2012

The Second Tranche comprising 25,832 B ordinary shares and 260 A ordinary shares is subject to an option, which is expected to be exercised by 28 February 2013

As part of these arrangements, one C ordinary share was issued to AHJ Holdings Limited on 8 August 2011 Further details of the C share are provided in Note 20

The C share will be acquired for a consideration of £1 when all sums due to AHJ Holdings Limited by BMS Associates Limited under the share purchase agreement have been discharged

They directors continue to adopt the going concern basis in preparing the annual report and accounts, which is discussed further in note 1

A review of the group's activities and prospects is set out in the Chairman's Report, the Chief Executive's Report and the Financial Review This fulfils the requirement of the Business Review and is incorporated in this report by reference

Results and dividends

The loss before tax was £2,125,000 (2010 £1,060,000 profit) The loss attributable to shareholders amounted to £3,106,000 (2010 £91,000 profit)

At the year end, the group had shareholders' funds of £212,000 which included £2,024,000 of corporate cash In addition the group had access to a £10m revolving credit facility of which no amounts had been drawn at year end The group's primary forward selling programme is for the US Dollar At the year end the group had entered into forward contracts as described in note 24

No dividends were paid during 2011 (2010 - £nil) No final dividend is proposed

Significant changes in fixed assets

Details of changes in fixed assets are disclosed in notes 8 to 12 to the accounts

Directors' Report (continued)

Directors

The directors of the company during the period under review were as follows

C J Hopton (Chairman)
C D Beardmore
R D Cooper
J Morley
P J Vincent

Directors' liabilities

The group has granted an indemnity to all of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act Such qualifying third-party indemnity provision remains in force as at the date of approving the Directors' Report

Derivative financial instruments

The group hedges a proportion of its projected foreign exchange exposure to the US dollar for up to three years ahead to reduce the volatility of the mismatch between the currency of most of its expenses (Pounds Sterling) and the currency of its main brokerage income (US Dollar) Other currencies are less significant but a similar three-year hedging programme is used for Canadian Dollars

Donations

The group made donations of £45,904 (2010 - £43,158) for charitable purposes during the year No political contributions were made by the group during the year (2010 - £nil)

Employees

The group's policy is to provide equal opportunities of employment, irrespective of gender, religion, race, age or marital status and to include, where appropriate having regard to capability and suitability, disabled persons Accordingly, the group will give due consideration to applications for employment by disabled persons and to the continued employment and training of persons who become disabled during their period of employment by the group The group seeks to achieve a common awareness among the staff of financial and economic factors affecting the business by consultation and by a comprehensive system of employee communication

Principal risks and uncertainties

The management of the business and the execution of the strategy are subject to a number of risks The key business risks and uncertainties affecting the group are considered to relate to

- competition from insurance and reinsurance brokers,
- the relative value of Pounds Sterling against our key currencies in which revenues are generated, notably the US Dollar,
- recruitment and retention of staff,
- substantial changes in the premium rating environment resulting in a reduction in commission earnings or increases in premiums reducing the level of demand for the group's services, and
- adverse changes in the value of pension scheme assets and liabilities

The business is focused on specific sectors in which it is believed it can successfully compete The reward strategy and development opportunities offered to staff are designed to mitigate the risk of losing or failing to attract staff

Directors' Report (continued)

Financial risk management objectives

The group is exposed to financial risk through its financial assets and financial liabilities The most important components of this financial risk are currency risk, credit risk, liquidity risk and pensions risk

The group manages its currency, credit and liquidity risks through Board approved policies and procedures The Board has reviewed the pension scheme exposures and has agreed a strategy to manage the risk

Currency risk

The group is exposed to currency risk in respect of its brokerage income denominated in currencies other than Pounds Sterling The most significant currencies to which the group is exposed are the US Dollar and the Canadian Dollar The group seeks to mitigate the risk through a programme of forward currency sales and currency options in the principal foreign currencies in which it earns its brokerage

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due Key areas where the group is exposed to credit risk are

- inadvertent funding of amounts due to third parties before such amounts have themselves been received by the group, and
- amounts due from clients for the group's brokerage

Inadvertent funding is monitored closely The group's operating procedures are designed to minimise the risk of this occurring in the first place and to recover funding promptly where this has occurred The group's credit control procedures are designed to collect amounts due from clients promptly in accordance with terms of trade

Liquidity and cash flow risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost The Board closely monitor cash flow and cash flow projections

Pensions risk

The group is exposed to a risk of adverse movement in the value of its pension scheme assets and liabilities The value of liabilities are driven by annual assumptions notably on mortality and the discount rate The investment strategy is reviewed by the Board The Board and the pension scheme trustees take appropriate advice from actuaries and investment advisers

Auditor

Each of the directors at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the group's auditor is unaware, and
- the director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting

Directors' Report (continued)

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the auditor's statement of the respective responsibilities of directors and auditor set out on the following pages, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and the auditor with regard to the financial statements

The directors are responsible for preparing the Annual 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 group, 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 judgments and 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, 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 group'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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Approved by the Board of Directors and signed on behalf of the Board

J.J.F. Hills

J J F Hills
Secretary
26 April 2012

Independent Auditor's Report

to the shareholders of BMS Associates Ltd

We have audited the financial statements of BMS Associates Ltd for the year ended 31 December 2011 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Consolidated and Company Balance sheets, the Consolidated cash flow statement and the related notes 1 to 33 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities, 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 group's and 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 implication for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent Auditor's Report (continued)

to the shareholders of BMS Associates Ltd

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

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 by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company 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

David Rush (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 April 2012

Consolidated profit and loss account

For the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Turnover	2	**52,886**	50,217
Administrative expenses		**(56,054)**	(50,030)
Other operating income	4	**1,151**	1,121
Operating (loss)/ profit	3	**(2,017)**	1,308
Share of associate undertakings	11	**1**	(30)
(Loss)/profit on ordinary activities before other income and interest payable		**(2,016)**	1,278
Other income	5	**44**	23
Interest payable		**(153)**	(241)
(Loss)/profit on ordinary activities before taxation		**(2,125)**	1,060
Tax on (loss)/profit on ordinary activities	7	**(1,109)**	(1,010)
(Loss)/profit on ordinary activities after taxation		**(3,234)**	50
Minority Interests	18	**128**	41
(Loss)/profit attributable to the shareholders of BMS Associates Ltd		**(3,106)**	91

All operations relate to continuing activities

The accompanying notes form an integral part of the financial statements

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Total recognised gains and losses – group undertakings		**(3,107)**	121
Total recognised gains and losses – associate undertakings		**1**	(30)
Total recognised gains and losses relating to the year (as dealt with in the profit and loss account)		**(3,106)**	91
Actuarial (loss)/gain on defined benefit pension schemes	26	**(1,152)**	847
Deferrerd tax relating to actuarial (loss)/gain		**300**	(237)
Exchange gain on net investments in overseas companies		**13**	66
Total recognised (loss)/gain relating to the year		**(3,945)**	767

Consolidated and Company Balance sheet

As at 31 December 2011

	Notes	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Fixed assets					
Intangible assets	8	**1,065**	1,205	**–**	–
Tangible assets	9	**1,612**	2,311	**–**	565
Loans to subsidiary undertakings	10	**–**	–	**12,181**	8,121
Investment in subsidiary undertakings	10	**–**	–	**5,531**	5,531
Investment in associate undertakings	11	**93**	92	**–**	–
Other investments	12	**435**	357	**–**	–
		3,205	3,965	**17,712**	14,217
Current assets					
Assets held for sale	13	**2,557**	2,557	**–**	–
Debtors	14	**196,759**	229,617	**8,329**	5,893
Cash at bank and in hand including short-term deposits	31	**40,035**	49,624	**135**	309
		239,351	281,798	**8,464**	6,202
Creditors: amounts falling due within one year	15	**(239,485)**	(275,275)	**(14,771)**	(7,425)
Net current (liabilities)/ assets		**(134)**	6,523	**(6,307)**	(1,223)
Total assets less current liabilities		**3,071**	10,488	**11,405**	12,994
Creditors: amounts falling due after one year	16	**–**	(178)	**–**	–
Provisions for liabilities and charges	17	**(81)**	(37)	**–**	–
Pension liability	26	**(2,946)**	(3,580)	**(528)**	(2,221)
Minority Interest	18	**168**	40	**–**	–
Total net assets		**212**	6,733	**10,877**	10,773
Capital and Reserves					
Called up share capital	20	**13**	13	**13**	13
Share premium account	21	**4,325**	4,325	**4,325**	4,325
Capital redemption reserve	21	**990**	990	**–**	–
Revaluation reserve	21	**–**	523	**–**	523
Profit and loss account	21	**374**	6,055	**12,029**	11,085
Share option reserve	21	**2,235**	1,469	**2,235**	1,469
		7,937	13,375	**18,602**	17,415
Investment in own shares	23	**(7,725)**	(6,642)	**(7,725)**	(6,642)
Equity shareholders' funds	22	**212**	6,733	**10,877**	10,773

The financial statements for BMS Associates Limited, company number 1494399, were approved by the Board of Directors on 26 April 2012

The accompanying notes form an integral part of the financial statements

Signed on behalf of the Board of Directors

PJ Vincent

P J Vincent
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Net cash outflow from operating activities	28		(1,100)		(597)
Returns on investments and servicing of finance					
Income from unlisted investments		34		2	
Income from listed investments		10		21	
Net interest payable		(153)		(241)	
Net cash outflow from returns on investments and servicing of finance			(109)		(218)
Taxation					
Tax paid			(325)		(376)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,377)		(247)	
Sale of tangible fixed assets		668		-	
Purchase of fixed asset investment		(96)		(69)	
Net cash outflow from capital expenditure and financial investment			(805)		(316)
Net cash outflow before financing			(2,339)		(1,507)
Financing					
Sale of own shares		1,102		773	
Purchase of own shares		(2,322)		(230)	
Repayment of bank loans		(671)		(621)	
Premium paid on option to purchase equity		(200)		-	
			(2,091)		(78)
Decrease in cash and cash equivalents	30, 31		(4,430)		(1,585)

Notes to the accounts

at 31 December 2011

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention, modified to include the revaluation of long-term leasehold property, and in accordance with United Kingdom applicable accounting standards The accounting policies, which are presented below, have been applied consistently in the current and preceding periods

Basis of consolidation

The group accounts comprise the accounts of BMS Associates Ltd, its subsidiary undertakings, its associated undertakings and the assets and liabilities of the BMS Associates Ltd Employee Trust

The BMS Associates Ltd Employee Trust has been treated as an extension of the company and its assets and liabilities are included within the company's assets and liabilities The accumulated assets of the trust are included within shareholders' funds The BMS Associates Ltd shares in the trust are shown as a deduction from shareholders' funds

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the company has not presented its own profit and loss account Of the consolidated profit for the financial year, £2,031,000 profit (2010 - £722,000 profit) has been dealt with in the accounts of the parent company

Going Concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Report and the Financial Review In addition details of the group's financial instruments and hedging activities are disclosed in note 24 and other principal risks and uncertainties to the group are disclosed in the Directors' Report After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Goodwill

When the group acquires other business undertakings, the purchase price will normally exceed the fair value of the net assets acquired This excess is referred to as goodwill and represents the income-generating potential of an experienced management team and an established customer base

The group's policy is to capitalise goodwill and amortise it over its estimated useful life The normal amortisation periods range from 10 to 20 years The amortisation periods are based on the directors' best estimate of the useful life of the acquired business undertakings Goodwill is subject to an impairment review at the end of the first full financial year following acquisition Subsequent impairment reviews are performed when there are indicators of impairment When acquired businesses or subsidiaries are disposed of, the profit or loss arising is calculated by including the attributable amount of goodwill not previously charged in the profit and loss account

Turnover

Turnover consists principally of brokerage, commissions and fees associated with the placement of insurance and reinsurance contracts, net of commissions payable to other directly involved parties The Group recognised income when earned Brokerage is recognised at the later of the policy inception date or when the policy placement has been completed and confirmed, with a proportion of income deferred over the period of the underlying contracts to recognise the ongoing contractual obligations of maintaining and servicing the contracts over that period

Notes to the accounts

at 31 December 2011

1. Accounting policies (continued)

LBITDA/EBITDA and Underlying EBITDA

LBITDA/EBITDA comprises the loss/profit attributable to the shareholders of BMS Associates Ltd adjusted for interest, tax, depreciation and amortisation Underlying EBITDA comprises EBITDA and other non cash and non recurring costs as set out in note 27

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions or, if hedged, at the forward contract rates Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date

The results of overseas operations are translated at the closing rates of exchange and their balance sheets at the rates ruling at the balance sheet date Exchange differences arising on translation of the opening net assets and on foreign currency borrowings, to the extent that they hedge the group's investments in such operations, are reported in the statement of total recognised gains and losses All other exchange differences are included in the profit and loss account

Depreciation of tangible assets

Where the group expects to use certain assets in its operations for more than one year, the cost of these assets is spread over a number of years

The method the group uses to do this is to estimate the useful life of the asset and the realisable value at the end of that time The profit and loss account is then charged with an equal annual amount so that by the end of its estimated useful life the cost or valuation of the asset has been written down to its estimated realisable value There is a full year's charge in the period when the asset is brought into use The carrying value of the tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

For the major classes of assets, annual depreciation rates are as follows

Leasehold improvements	20%
Fixtures, fittings and equipment	10% to 20%
Computer hardware	25%
Computer software	25%

Leasing

Operating lease receivable and costs are credited and charged to the profit and loss account in equal annual instalments over the lives of the leases Lease incentives are recognised over the shorter of the lease term and the period to the next rent review

Rental income

Rental income is recognised on an accruals basis

Notes to the accounts

at 31 December 2011

1. Accounting policies (continued)

Pensions

All employees are eligible to become members of a group pension scheme after three months' service For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account Losses are measured at the date the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction The interest cost and the expected return on assets are shown as net interest payable or other income Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately on the face of the balance sheet

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rules and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax No deferred tax is provided on revaluation of fixed assets

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax assets are not discounted

Investment in subsidiary undertakings

The investment in subsidiary undertakings is stated in the parent company balance sheet at the cost of shares less any provision for impairment

Own shares

Shares purchased by the BMS Associates Ltd Employee Trust are valued at acquisition cost Disposals are valued at average cost

Realised gains and losses arising on transactions in own shares are recorded as a movement in reserves

Notes to the accounts

at 31 December 2011

1. Accounting policies (continued)

Investments

Except as stated below, investments are stated at cost less any required impairments

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method

Interest on deposits and interest bearing investments is credited as it is earned

Asset held for sale

The asset held for sale is stated in the consolidated balance sheet at cost less any provision for impairment

Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange These include forward contracts and foreign currency options

Changes to the fair value of foreign exchange contracts held as hedges against transactional exposure are not recognised until the maturity of the contract

Share-based payment

The Group has applied the requirements of FRS 20 Share-based Payment In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006

The Group issues equity-settled share-based payments to certain employees Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

The directors use a valuation model based upon an historical five year earnings per share multiple to measure the fair value of a share

Insurance broking debtors and creditors

Insurance brokers normally act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such transactions Notwithstanding such legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities in recognition of the fact that the insurance broker is entitled to retain investment income on any cash flows arising from such transactions and accordingly such investment income is included in operating profits Such cash is held in a client account separate from the general funds of the group Accordingly insurance cash is excluded from our cash flow statement

In the ordinary course of insurance broking business, settlement is required to be made with certain insurance intermediaries and bureaux on the basis of the net balance due to or from the intermediary or bureau rather than the amount due to or from the individual third parties it represents The group has applied Financial Reporting Standard 5 (FRS 5) "Reporting the Substance of Transactions" and offsets debtors and creditors from insurance transactions only when it is legally enforceable

Notes to the accounts

at 31 December 2011

2. Turnover

	2011 £000	2010 £000
Geographical analysis of turnover by source of contract		
North America	**28,466**	28,549
Rest of the World	**13,748**	11,845
United Kingdom	**10,672**	9,823
	52,886	50,217

The business activities of the company are primarily based in the United Kingdom, and this is where the company's operating profits are generated and its net assets are held The turnover arises from the company's principal activity of insurance and reinsurance broking

The group share of the associate turnover is £63,000 (2010 - £114,000)

3. Operating loss/profit

	2011 £000	2010 £000
Operating loss/profit is stated after charging/(crediting):		
Staff costs including directors' emoluments:		
Salary and performance bonus	**30,354**	26,673
Social security costs	**2,698**	2,248
Other pension costs – defined benefit current and past service cost (note 26)	**198**	242
– defined contributions (note 26)	**1,586**	1,610
Share-based payment charge	**844**	1,202
Other staff costs	**1,610**	1,602
	37,290	33,577
Depreciation of tangible fixed assets (note 9)	**1,487**	1,502
Amortisation of goodwill (note 8)	**140**	141
Operating lease rentals	**1,859**	1,695
Auditor's remuneration – audit fee, including company (2011 £25,000, 2010 £25,000)	**226**	204
Auditor's remuneration – tax services	**83**	147
Auditor's remuneration – information technology services	**104**	-
Auditor's remuneration – other services	**-**	129
Unrealised foreign exchange gain	**(178)**	(598)

	2011 No.	2010 No
The average number of employees during the year was	**291**	267

Notes to the accounts

at 31 December 2011

4. Other operating income

	2011 £000	2010 £000
Bank interest receivable	311	83
Consultancy fees	3	269
Rental income receivable	775	715
Licence fee receivable	62	54
	1,151	1,121

5. Other income

	2011 £000	2010 £000
Income from unlisted investment	34	2
Income from listed investment	10	21
	44	23

6. Directors

	2011 £000	2010 £000
Remuneration of directors of the company included in staff costs	1,624	2,818

The company contributions payable to the defined contribution pension scheme amounted to £102,473 (2010 - £223,003) During the year one director (2010 - one) was a member of the defined benefit schemes and two (2010 - ten) directors were members of the defined contribution schemes Also during the year two (2010 – nine) directors received share option commitments under the proposed Long-Term Incentive Plan, and no (2010 – four) directors exercised options under the Unapproved Share Option Plan

The emoluments payable to the highest paid director were £541,099 (2010 - £542,522) In addition, in 2011, the highest paid director received share option commitments under the proposed Long-Term Incentive Plan Contributions to the defined contribution scheme for the highest paid director were £43,700 (2010 - £12,500) There was no further remuneration or emoluments relating to the highest paid director

Notes to the accounts

at 31 December 2011

7. Tax on profit on ordinary activities

	2011 £000	2010 £000
The taxation charge comprises		
Current Tax		
UK Corporation tax at 26 5% (2010 - 28%)	764	561
Prior years' (over)/under provision	(146)	24
Total current tax	618	585
Deferred tax		
Origination and reversal of timing differences	(282)	(90)
Prior years' under/(over) provision	10	(13)
Pension fund deferred tax charge	556	528
Rate difference	207	–
Tax on profit on ordinary activities	1,109	1,010

Factors affecting tax charge for the year

The tax rate for the year is higher than the standard rate of tax in the UK (26 5%) The differences are explained below

	2011 £000	2010 £000
(Loss)/Profit on ordinary activities before tax	(2,125)	1,060
Share of associate	(1)	30
	(2,126)	1,090
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26 5% (2010 - 28%)	(563)	305
Effects of		
Expenses not deductible for tax purposes	311	322
Losses from overseas subsidiaries	1,199	334
Other timing differences	266	91
Accelerated capital allowances	215	236
Income not taxable	(132)	(133)
Pension fund deferred tax	(567)	(529)
Share option relief	(21)	(175)
Deferred trading losses	82	110
Prior years' (over)/under provision	(146)	24
Rate difference	(5)	–
Loss on disposal of fixed assets	(21)	–
Current tax charge for the year	618	585

The Finance Bill 2012, which provides for a reduction in the main rate of UK corporation tax from 26% to 24% effective from 1 April 2012, was substantially enacted in March 2012 The UK Government also announced further incremental 1% reductions to the main tax rate until the rate reaches 22% by 1 April 2014 However at the Balance Sheet date a reduction from 26% to 25% was enacted at which the deferred tax in note 19 has been provided

Notes to the accounts

at 31 December 2011

8. Intangible fixed assets

Group

	£000
Goodwill arising on the acquisition of subsidiary undertakings	
Cost	
At 1 January and 31 December 2011	**3,501**
Amortisation	
At 1 January 2011	2,296
Charged in year	140
At 31 December 2011	**2,436**
Carrying value at 31 December 2011	**1,065**
Carrying value at 31 December 2010	1,205

All acquisitions were accounted for using the acquisition method Goodwill was calculated as the value of consideration and expenses of acquisition less the fair value of net assets acquired

Notes to the accounts

at 31 December 2011

9. Tangible fixed assets

Group

	Long-term leasehold property £000	Leasehold property improvements £000	Fixtures, fittings and equipment £000	Computer software and hardware £000	Total £000
Cost/valuation					
At 1 January 2011	543	7,329	3,641	4,144	15,657
Additions	–	46	448	883	1,377
Disposals	(543)	–	(1,018)	(1,056)	(2,617)
At 31 December 2011	**–**	**7,375**	**3,071**	**3,971**	**14,417**
Accumulated depreciation					
At 1 January 2011	89	6,122	3,423	3,820	13,454
Charged in year	7	1,207	75	198	1,487
Disposal in year	(96)	–	(987)	(1,053)	(2,136)
At 31 December 2011	**–**	**7,329**	**2,511**	**2,965**	**12,805**
Surplus on revaluation					
At 1 January 2011	108	–	–	–	108
Disposal in year	(108)	–	–	–	(108)
At 31 December 2011	–	–	–	–	–
Net book value/valuation at 31 December 2011	**–**	**46**	**560**	**1,006**	**1,612**
Net book value/valuation at 31 December 2010	562	1,207	218	324	2,311

Notes to the accounts

at 31 December 2011

9. Tangible fixed assets (continued)

Company

	Long-term leasehold property £000	Fixtures, fittings and equipment £000	Total £000
Cost/valuation			
At 1 January and 31 December 2011	543	58	601
Disposals in year	(543)	(58)	(601)
At 31 December 2011	–	–	–
Accumulated depreciation			
At 1 January 2011	89	55	144
Charged in year	7	–	7
Disposals in year	(96)	(55)	(151)
At 31 December 2011	–	–	–
Net book value/valuation at 31 December 2011	–	–	–
Net book value/valuation at 31 December 2010	562	3	565

The property was disposed of on 26 April 2011

10. Loans and Investment in subsidiary undertakings

Company

	Long-term Shares £000	Loans £000	Total £000
Cost			
At 1 January 2011	8,052	11,121	19,173
Loans issued in the year	–	4,060	4,060
At 31 December 2011	**8,052**	**15,181**	**23,233**
Provision for impairment			
At 1 January 2011 and 31 December 2011	2,521	3,000	5,521
At 31 December 2011	**2,521**	**3,000**	**5,521**
Carrying value at 31 December 2011	**5,531**	**12,181**	**17,712**
Carrying value at 31 December 2010	5,531	8,121	13,652

Notes to the accounts

at 31 December 2011

10. Loans and Investment in subsidiary undertakings (continued)

Details of the principal subsidiary undertakings at 31 December 2011 all of which are consolidated are

Name	Principal activity	Company %	Percentage held by Subsidiaries %
BankServe Insurance Services Ltd	Reinsurance broking insurance broking	100	–
BMS Bermuda Ltd	Reinsurance broking	–	100
BMS Group Ltd	Reinsurance and insurance broking	100	–
BMS Intermediaries Inc	Reinsurance broking	–	100
BMS Risk Solutions Ltd	Reinsurance and insurance broking	86	–
BMS Specialty Risks Underwriting Managers Ltd	Insurance services	–	100
BMS US Holdings Inc	Corporate investment	100	–
JH Insurance Services	Insurance services	–	100
JH Intermediaries Ltd	Reinsurance and insurance broking	100	–
Minova Enterprises Ltd	Corporate investment	100	–
SCI Palmier	Property investment	100	–
Pioneer Underwriting Holdings Ltd	Corporate Investment	100	–
Pioneer Underwriting Ltd	Insurance underwriting agency	–	100

All the above companies are registered and operate in England and Wales except as follows

	Country
BMS Bermuda Ltd	Bermuda
BMS Intermediaries Inc	USA
BMS Specialty Risks Underwriting Managers Ltd	Canada
BMS US Holdings Inc	USA
JH Insurance Services	USA
SCI Palmier	France

Notes to the accounts

at 31 December 2011

11. Investment in associate undertakings

	£000
At 1 January 2011	92
Share of associate profit	1
At 31 December 2011	**93**

The group's investment in associate undertakings is valued at its share of their net assets

Details of the associate undertakings at 31 December 2011 are

Name	Principal activity	Country in which registered and operating	Company %	Percentage held by Subsidiaries %
Arium Ltd	Risk modelling	England and Wales	–	43

12 Other investments

Group

	2011 £000	2010 £000
At 1 January 2011	**357**	324
Additions in year	**96**	69
Amortisation of debentures	**(18)**	(36)
At 31 December 2011	**435**	357

All of the other investments are unlisted other than the investment in United Insurance Holdings Corp which had a carrying value of £144,000 and a market value at 31 December 2011 of £1,035,000 The share price at year end was $4 50 United Insurance Holdings Corp is publicly traded on the Over the Counter Bulletin Board with very low volumes being traded

13 Asset held for sale

Group

	2011 £000	2010 £000
Freehold property for resale	**2,557**	2,557

The asset held for sale relates to a property in France The property is expected to be sold within the next 12 months

Notes to the accounts

at 31 December 2011

14. Debtors

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Insurance debtors	**188,894**	225,710	–	–
Amount due from subsidiary undertakings	–	–	**7,736**	5,452
Taxation	–	139	–	–
Other debtors	**1,262**	693	–	4
Deferred tax (note 19)	**1,026**	861	**592**	434
Prepayments and accrued income	**5,577**	2,214	**1**	3
	196,759	229,617	**8,329**	5,893

The deferred tax assets represent amounts falling due after more than one year

15. Creditors: amounts falling due within one year

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Insurance creditors	**221,150**	263,421	–	–
Amount owed to subsidiary undertakings	–	–	**11,708**	6,294
Other creditors including social security	**680**	609	–	–
Taxation	**153**	–	–	–
Accruals and deferred income	**17,324**	10,574	**3,063**	1,131
Bank loan (note 16)	**178**	671	–	–
	239,485	275,275	**14,771**	7,425

Within the group accruals and deferred income balance, £nil (2010 - £455,000) relates to a capital receipt in connection with the move to the offices in America Square, London during 2006

Notes to the accounts

at 31 December 2011

16. Creditors: amounts falling due after one year

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Bank loan	–	178	–	–
	–	178	–	–

The bank loan is repayable as follows

	2011	2010
	£000	£000
Repayable within one year	**178**	671
Repayable between one and two years	–	178
	178	849

The bank loan repayments above are charged interest at an effective rate of 7 7% This loan was taken out by a subsidiary, BMS Group Ltd, and is guaranteed by BMS Associates Ltd

In addition, on 31 May 2011 BMS Associates Ltd entered into a £10m revolving credit facility (RCF) with Lloyds TSB Bank plc Interest on amounts drawn is calculated at 3 35% above LIBOR with non utilised amounts charged at 1 675% The maturity date of the RCF is 31 May 2014 A fixed and first floating charge was granted over the assets of the company As at 31 December 2011 no amounts had been drawn on the facility

17. Provisions for liabilities and charges

Group

	At 1 January 2011	Utilisation	Increase in provision	**At 31 December 2011**
	£000	£000	£000	**£000**
Errors & Omissions provision	**37**	(22)	66	**81**
	37	(22)	66	**81**

E & O provision

Certain subsidiaries are currently involved or potentially involved in claims arising from their business activities On the facts known to the directors there is no reason to suppose that any losses in excess of the deductibles under the group's errors and omission insurances will not be covered Provision is only made to the extent that losses are expected to arise The amounts represent the net deductible value under the group's insurance policy as it is not possible to reliably calculate the gross asset and liability

Notes to the accounts

at 31 December 2011

18. Minority Interests

	2011 £000	2010 £000
At 1 January	**40**	-
Loss on ordinary activities after taxation	**128**	41
Minority share of share capital	-	(1)
At 31 December	**168**	40

19. Deferred taxation

	Group 2011 £000	Company 2011 £000
Capital allowances		
At 1 January	274	13
Charge in the year	(3)	(12)
At 31 December	271	1
Other timing differences		
At 1 January	587	421
Credit in the year	168	170
At 31 December	755	591
Deferred tax asset		
At 31 December	1,026	592
At 1 January	861	434

A deferred tax asset of £4,817,000 (2010 - £3,026,000) on the losses incurred in overseas subsidiaries has not been recognised within the BMS Associates Limited group of companies

At 31 December 2011, management of the BMS Associates Limited group of companies expect capital losses of £1,888,000 to be available to relieve against future capital gains generated within the group The related tax value of the loss, if fully utilised, is £453,120

When management becomes sufficiently confident that any of the above mentioned losses will be utilised, a deferred tax asset will be recognised

Notes to the accounts

at 31 December 2011

20. Called up share capital

	2011	2010
	£	£
Authorised		
1,000 (2010 - 1,000) 'A' ordinary shares of 5p each - non equity	50	50
398,999 (2010 - 399,000) 'B' ordinary shares of 5p each - equity	19,950	19,950
1 (2010 – nil) 'C' ordinary share of 5p each – equity	-	-
	20,000	20,000
Allotted and fully paid		
1,000 (2010 - 1,000) 'A' ordinary shares of 5p each - non equity	50	50
258,314 (2009 - 258,314) 'B' ordinary shares of 5p each - equity	12,916	12,916
1 (2010 – nil) 'C' ordinary share of 5p each – equity	-	-
	12,966	12,966

The holders of the 'A' ordinary shares are entitled to vote at the general meetings of the company but are not entitled to any dividends and are only entitled to the paid up amount upon winding up subject to the preferential rights of the 'C' ordinary share

The holders of the 'B' ordinary shares are not entitled to vote at the company's general meetings of the company but are entitled to dividends and any surplus upon winding up subject to the preferential rights of the 'C' ordinary share

The rights attaching to the B ordinary shares were varied by the creation of one C ordinary share which entitles the holder to a preferential right to dividend and to return of capital on a winding up

On 8 August 2011 one "B" ordinary share was redesignated as one "C" ordinary share

The holder of the one "C" ordinary share is not entitled to vote at general meetings of the company but is entitled to

1 An Uplift Dividend - a dividend representing the amount by which the price for any B Shares acquired from the C shareholder within 18 months before (i) a change of control of the company, (ii) a sale of the company, or the whole or a substantial part of the business (to a person or persons acting together who do not have control of the company before such sale), (iii) the admission of all or any of the company's shares to the Official List of the UK Listing Authority or on the AIM Market operated by the London Stock Exchange plc, but not including any solvent reconstruction of the company where there is no overall change of control of the company, falls short of the price implied in the change of control, sale or listing

2 A Special Dividend - a fixed cumulative preferential dividend calculated at agreed annual rates on the purchase price of the B shares still held by the C Shareholder from 28 February 2013

3 Upon winding up, reduction or repayment of capital, preferential rights to any surplus remaining after the payment of liabilities to settle any amount outstanding to the C shareholder by way of dividend or in connection with the purchase of any of its remaining shares in the company in priority to the holders of the A and B ordinary shares

Notes to the accounts

at 31 December 2011

21. Reserves

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Share premium account				
At 1 January and 31 December	**4,325**	4,325	**4,325**	4,325
Capital redemption reserve				
At 1 January and 31 December	**990**	990	–	–
Revaluation reserve				
At 1 January	**523**	523	**523**	523
Transfer to profit and loss account	**(523)**	–	**(523)**	–
At 31 December	–	523	–	523
Profit and loss account				
At 1 January	**6,055**	5,636	**11,085**	9,933
(Loss)/profit attributable to shareholders	**(3,106)**	91	**2,031**	722
Realised loss on own shares	**(137)**	(971)	**(137)**	(971)
Actuarial (loss)/gain on pension schemes	**(852)**	610	**649**	778
Exchange gain on net investments in overseas companies	**13**	66	–	–
Transfer from share option reserve	**78**	623	**78**	623
Transfer from revaluation reserve	**523**	–	**523**	–
Share purchase obligation	**(2,000)**	–	**(2,000)**	–
Premium paid on option to purchase equity	**(200)**	–	**(200)**	–
At 31 December	**374**	6,055	**12,029**	11,085
Share option reserve				
At 1 January	**1,469**	890	**1,469**	890
Charge in the year	**844**	1,202	**844**	1,202
Transfer to profit and loss account	**(78)**	(623)	**(78)**	(623)
At 31 December	**2,235**	1,469	**2,235**	1,469

The capital redemption reserve is non-distributable It relates to retained reserves within a subsidiary company which have been converted to share capital

The reserves of the group include the accumulated net assets of the Employee Trust £7,902,000 (2010 - £6,029,000) and the group pension deficit £2,946,000 (2010 - £3,580,000) net of taxation

Notes to the accounts

at 31 December 2011

22. Reconciliation of movements in equity shareholders' funds

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Opening equity shareholders' funds	**13,375**	12,377	**17,415**	15,684
(Loss)/profit attributable to shareholders	**(3,106)**	91	**2,031**	722
Realised loss on own shares	**(137)**	(971)	**(137)**	(971)
Actuarial (loss)/gain on pension schemes	**(852)**	610	**649**	778
Share-based payment charge	**844**	1,202	**844**	1,202
Exchange gain/(loss) on net investments in overseas companies	**13**	66	**–**	–
Share purchase obligation	**(2,000)**	–	**(2,000)**	–
Premium paid on option to purchase equity	**(200)**	–	**(200)**	–
Closing equity shareholders' funds before investment in own shares	**7,937**	13,375	**18,602**	17,415
Investment in own shares	**(7,725)**	(6,642)	**(7,725)**	(6,642)
	212	6,733	**10,877**	10,773

23. Employee share ownership programme

The group operates a scheme under a trust arrangement, the BMS Associates Ltd Employee Trust

The investment in 'own shares' is deducted from shareholders' funds in the balance sheets

Group and Company

	2011	2010
	£000	£000
At 31 December	**7,725**	6,642

	2011	2010
	No.	No
At 31 December		
'A' Shares	**720**	720
'B' Shares	**67,726**	62,787

Subsequent to the year end the Employee Trust has acquired a further 7,915 'B' shares

Notes to the accounts

at 31 December 2011

24. Commitments

Lease agreements

The group, as part of its normal trading activities, has entered into certain lease agreements for the provision of office accommodation These agreements impose a commitment on the group to pay the lease rents for the period of the lease

Annual commitments under non cancellable operating leases are set out below

	2011	2010
	£000	£000
Commitments expiring		
Within one year	46	2,086
Between one and five years	2,467	380
After more than five years	327	44
	2,840	2,510

Foreign exchange contracts

The group earns brokerage and fees in a number of different currencies However, the group's cost base is predominately in Pounds Sterling To the extent that significant revenues are earned in US Dollars, Canadian Dollars and Euros, the group limits its exposure to changes in the exchange rate between the Pound Sterling and these currencies by the use of forward contracts and currency options

As at 31 December 2011, the group had the following forward contracts and currency options

	2011		2010	
	Principal	Fair value	Principal	Fair value
	(millions)	£m	(millions)	£m
Forward contracts				
US dollars	163.7	(2.1)	137 5	(1 1)
Canadian dollars	10.0	0 0	9 0	(0 3)
Euros	6.0	0.2	5 5	(0 0)
Currency options				
US dollars	–	–	4 5	(0 1)
Total		(1.9)		(1 5)

The forward contracts as at 31 December 2011 have maturity dates between January 2012 and July 2014 The principal and fair values are calculated against the year end spot rates of US Dollar 1 55 (2010 - 1 57), Canadian dollars 1 58 (2010 - 1 56) and Euro 1 20 (2010 – 1 17) The actual principal amount and the related fair values will depend on the prevailing month end exchange rates during the period of the contracts

Notes to the accounts

at 31 December 2011

25. Share-based payments

The group issued share options to certain employees which vested on 31 December 2010 All options are equity settled There were no performance conditions other than the employee continuing to be employed on the vesting date

	2011		2010	
	Number of Share Options	Exercise Price	Number of Share Options	Exercise Price
Outstanding as at 1 January	7,385	-	10,685	-
Granted during the year	639	Nil	–	Nil
Forfeited during the year	(3,025)	Nil	–	Nil
Exercised during the year	(198)	Nil	(3,300)	Nil
Outstanding as at 31 December	**4,801**		7,385	

In December 2011, options with an estimated fair value of £22,000 were exercised

In addition, during the year commitments were made to employees under a proposed Long-Term Incentive Plan The commitments made were for 17,787 shares in August 2011 with 666 being exercised during the year The total commitments at December 2011 are for 64,638 shares These commitments will only vest if there is change in control of BMS Associates Limited and the performance criteria is that the employees continue to be employed at the vesting date

26. Pensions

The group operates three defined contribution pension schemes, the assets being held separately from the group in independently administered funds The employer contributions are charged direct to the profit and loss account

In addition, the group operates two defined benefit pension schemes, both of which are closed to new employees and closed to future accrual

The defined benefit schemes provide benefits based on final pensionable salaries at the date a member left BMS employment or the date on which they ceased to be an active member The schemes' assets are held in separate trustee administered funds The pension costs relating to the schemes are assessed in accordance with the advice of independent actuaries using the projected unit method

The Pension and Assurance Scheme of BMS Associates Ltd (BMS Associates)

The latest actuarial assessment of the scheme was at 31 December 2010 and the main actuarial assumptions were that the annual compound rate of return on investment would be 5 6% and that annual increase in pensions would be 3 0% The assessed value of the assets at the date of the latest actuarial valuation for funding purposes amounted to £36 1m and the actuarial value of the assets was sufficient to cover 94% of the value of the benefits that had accrued to members on the basis of pensionable earnings and service at the date of the valuation on an ongoing basis

Notes to the accounts

at 31 December 2011

26. Pensions (continued)

The BMS Harris & Dixon Insurance Brokers Ltd Pension and Life Assurance Scheme (BMS Harris & Dixon)

The latest actuarial assessment of the scheme was at 31 December 2010 and the main actuarial assumptions were that the average annual compound rate of return on investments for the five years from the date of the valuation would be 5 6% and that annual increase in pensions would be 3 0% The assessed value of the assets at the date of the latest actuarial valuation for funding purposes amounted to £24 4m and the actuarial value of the assets was sufficient to cover 91% of the value of the benefits that had accrued to members on the basis of pensionable earnings and service at the date of the valuation on an ongoing basis

Contributions

	2011 £000	2010 £000
Contributions paid to defined benefit schemes	**2,131**	2,270
Contributions paid to defined contribution schemes	**1,586**	1,610

FRS 17 Disclosures

The disclosures showing the total assets and liabilities of the pension plans are set out below These have been calculated on the following assumptions

BMS Associates

	2011	2010	2009	2008
Rate of increase in salaries	**N/A**	N/A	4 30%	3 70%
Rate of increase for pensions in payment	**2.20%**	3 10%	3 60%	2 60%
Discount rate	**4.90%**	5 25%	5 85%	6 10%
Inflation assumption	**2.70%**	3 10%	3 30%	2 70%

BMS Harris & Dixon

	2011	2010	2009	2008
Rate of increase in salaries	**N/A**	N/A	4 30%	3 70%
Rate of increase for pensions in payment	**3.50%**	3 80%	3 60%	2 60%
Discount rate	**4.90%**	5 25%	5 85%	6 10%
Inflation assumption	**2.70%**	3 10%	3 30%	2 70%

The inflation assumption within the BMS Associates scheme changed in 2010 to be based on the Consumer Prices index rather than the Retail Prices Index which had been used in prior years The BMS Harris & Dixon scheme has also historically used the Retail Prices Index and will continue to use the Retail Prices Index for inflation increases once a pension is in payment However, from 2010 inflation increases before a pension comes in to payment will be based on the Consumer Prices Index

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at 31 December 2011

26. Pensions (continued)

The overall expected return on plan assets has been estimated by the directors based on the advice from an independent actuary The directors have allowed for a return of 3 50% on equities in excess of that available on UK government securities The assumed rate on cash was the expected price inflation before retirement and on fixed interest securities at the available market yields Absolute return funds include an allowance for an additional return of 5% pa above the UK 6 month LIBOR rates

	BMS Associates		BMS Harris & Dixon	
	2011	2010	**2011**	210
Equities	**6.0%**	7 3%	**6.0%**	7 3%
Bonds and cash	**3.2%**	4 4%	**4.3%**	5 4%
Absolute return funds	**N/A**	N/A	**6 4%**	6 0%
Weighted average return	**4.6%**	5 8%	**5.2%**	6 2%

The disclosures showing the demographic assumptions are set out below

BMS Associates and BMS Harris & Dixon

Description	**2011**	2010
Mortality tables before retirement	AM00/AF00	AM00/AF00
Mortality tables after retirement	S1PMA CMI_2010_M[1%]	SIPA_L mc (min 1% pa)
- Life expectancy at age 63, male retiring today	25 5years	24 8 years
- Life expectancy at age 63 male retiring in 15 years' time	26 9years	26 2 years
Pension commutation for cash at retirement	25% of members take the maximum amount of tax-free cash	25% of members take the maximum amount of tax-free cash

The pension liability recognised in the balance sheet

		BMS Associates	
	2011	2010	2009
	£000	£000	
Equities	**18,138**	16,643	14,505
Bonds and cash	**18,199**	16,799	14,172
Market value of assets	**36,337**	33,442	28,677
Present value of liabilities	**(37,051)**	(36,526)	(34,214)
Deficit in the plan	**(714)**	(3,084)	(5,537)
Related deferred tax asset	**186**	863	1,550
Net pension liability	**(528)**	(2,221)	(3,987)

Notes to the accounts

at 31 December 2011

26. Pensions (continued)

	BMS Harris & Dixon		
	2011	2010	2009
	£000	£000	£000
Equities	**2,183**	8,769	7,686
Bonds and cash	**13,382**	10,994	10,096
Absolute return funds	**8,087**	4,539	4,299
Market value of assets	**23,652**	24,302	22,081
Present value of liabilities	**(26,920)**	(26,190)	(24,252)
Deficit in the plan	**(3,268)**	(1,888)	(2,171)
Related deferred tax asset	**850**	529	608
Net pension liability	**(2,418)**	(1,359)	(1,563)

The main asset allocations by sector are as follows

BMS Associates

	2011		2010		2009	
	Market value £000	**% of total Scheme Assets**	Market value £000	% of total Scheme Assets	Market value £000	% of total Scheme Assets
Equities	**18,138**	**50%**	16,643	50%	14,505	51%
Bonds and cash	**18,199**	**50%**	16,799	50%	14,172	49%
Total	**36,337**	**100 %**	33 442	100%	28 677	100%
Actual return on Scheme assets over the previous year	**2,385**		3,636		4,650	

BMS Harris & Dixon

	2011		2010		2009	
	Market value £000	**% of total Scheme Assets**	Market value £000	% of total Scheme Assets	Market value £000	% of total Scheme Assets
Equities	**2,183**	**9%**	8,769	36%	7 686	35%
Bonds and cash	**13,382**	**57%**	10,994	45%	10 096	46%
Absolute return funds	**8,087**	**34%**	4 539	19%	4 299	19%
Total	**23,652**	**100%**	24 302	100%	22 081	100%
Actual (loss)/ return on Scheme assets over the previous year	**(473)**		2 375		3,359	

Notes to the accounts

at 31 December 2011

26. Pensions (continued)

Analysis of changes in the value of the scheme assets over the year is as follows

	BMS Associates	BMS Harris & Dixon	Total	BMS Associates	BMS Harris & Dixon	Total
	2011 £000	2011 £000	2011 £000	2010 £000	2010 £000	2010 £000
Market value of assets at the beginning of the year	33,442	24,302	57,744	28 677	22,081	50,758
Expected return on Scheme assets	1,954	1,501	3,455	1,842	1,408	3,250
Actuarial gain/(loss)	431	(1,974)	(1,543)	1 794	967	2,761
Employer's contributions	1,433	698	2,131	1,540	730	2,270
Members' contributions	–	–	–	15	4	19
Benefits paid	(923)	(875)	(1,798)	(426)	(888)	(1,314)
Market value of assets at the end of the year	36,377	23,652	59,989	33,442	24,302	57,744

Analysis of changes in the value of the scheme liabilities over the year is as follows

	BMS Associates	BMS Harris & Dixon	Total	BMS Associates	BMS Harris & Dixon	Total
	2011 £000	2011 £000	2011 £000	2010 £000	2010 £000	2010 £000
Value of liabilities at the beginning of the year	36,526	26,190	62,716	34,214	24 252	58,466
Current service cost	–	–	–	19	18	37
Interest cost on Scheme liabilities	1,894	1,352	3,246	1,990	1,399	3,389
Members' contributions	–	–	–	15	4	19
Past service cost	–	198	198	–	205	205
Benefits paid	(923)	(875)	(1,798)	(426)	(888)	(1,314)
Actuarial (gains)/losses	(446)	55	(391)	714	1 200	1,914
Market value of liabilities at the end of the year	37,051	26,920	63,971	36,526	26,190	62,716

The above annual financial assumptions are prescribed by FRS 17 and do not reflect the assumptions used by the independent qualified actuary in the triennial valuation, which determine the group's contribution rates for future years FRS 17 requires the directors to account for the assets and liabilities of the group's defined benefit schemes at 31 December 2011 using these FRS 17 assumptions

The following amounts have been reflected in the Consolidated profit and loss account and Consolidated statement of total recognised gains and losses

Notes to the accounts

at 31 December 2011

26. Pensions (continued)

Amounts charged to operating profit

	2011 BMS Associates £000	2011 BMS Harris & Dixon £000	2011 Total £000	2010 BMS Associates £000	2010 BMS Harris & Dixon £000	2010 Total £000
Current service cost	–	–	–	19	18	37
Past service cost	–	198	198	–	205	205
Total operating charge	–	198	198	19	223	242

Amounts credited/(charged) to other income/interest payable

	2011 BMS Associates £000	2011 BMS Harris & Dixon £000	2011 Total £000	2010 BMS Associates £000	2010 BMS Harris & Dixon £000	2010 Total £000
Interest cost	(1,894)	(1,352)	(3,246)	(1,990)	(1,399)	(3,389)
Expected return on pension scheme assets	1,954	1,501	3,455	1,842	1,408	3,250
Total	60	149	209	(148)	9	(139)

Amounts recognised in the Consolidated statement of total recognised gains and losses (STRGL)

	BMS Associates 2011 £000	BMS Harris & Dixon 2011 £000	Total 2011 £000	BMS Associates 2010 £000	BMS Harris & Dixon 2010 £000	Total 2010 £000
Actuarial gains/(losses)	877	(2,029)	(1,152)	1,080	(233)	847
Total (loss)/gains recognised in the STRGL	877	(2,029)	(1,152)	1,080	(233)	847

Notes to the accounts

at 31 December 2011

26. Pensions (continued)

History of Scheme Assets, Liabilities, Experience Gains and Losses

BMS Associates

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Market value of Scheme assets	**36,337**	33,442	28,677	23,662	24,914
Value of Scheme liabilities	**37,051**	36,526	34,214	28,607	33,009
Deficit in the Scheme	**(714)**	(3,084)	(5,537)	(4,945)	(8,095)
Experience (losses)/gains					
Arising on Scheme liabilities	**(698)**	229	(656)	405	(458)
% of Scheme liabilities	**(1.84)**	0 63	(1 92)	1 42	1 39
Experience gains/(losses)					
Arising on Scheme assets	**431**	1,794	3,300	(4,174)	611
% of Scheme assets	**1.19**	5 36	11 51	(17 64)	2 45

BMS Harris & Dixon

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Market value of Scheme assets	**23,652**	24,302	22,081	20,878	24,025
Value of Scheme liabilities	**26,920**	26,190	24,252	23,849	24,253
Deficit in the Scheme	**(3,268)**	(1,888)	(2,171)	(2,971)	(228)
Experience (losses)/gains					
Arising on Scheme liabilities	**(272)**	326	883	(1,434)	(298)
% of Scheme liabilities	**(1.01)**	1 24	3 64	(6 01)	(1 23)
Experience (losses)/gains					
Arising on Scheme assets	**(1,974)**	967	2,024	(4,195)	(485)
% of Scheme assets	**(8.35)**	3 98	9 17	(20 09)	(2 02)

Notes to the accounts

at 31 December 2011

26. Pensions (continued)

Movement in deficit in the scheme over the year is as follows

	2011 BMS Associates £000	2011 BMS Harris & Dixon £000	2011 Total £000	2010 BMS Associates £000	2010 BMS Harris & Dixon £000	2010 Total £000
Deficit in Scheme at beginning of the year*	**(3,084)**	**(1,888)**	**(4,972)**	(5,537)	(2,171)	(7,708)
Movement in year						
Current service cost	–	–	–	(19)	(18)	(37)
Net interest return/(cost) on assets	**60**	**149**	**209**	(148)	9	(139)
Contributions	**1,433**	**698**	**2,131**	1,540	730	2,270
Past service cost	–	**(198)**	**(198)**	–	(205)	(205)
Actuarial gain/(loss)	**877**	**(2,029)**	**(1,152)**	1,080	(233)	847
Deficit in scheme at the end of the year*	**(714)**	**(3,268)**	**(3,982)**	(3,084)	(1,888)	(4,972)

*Amounts are stated gross of deferred tax

27. Underlying EBITDA

	2011 £000	2010 £000
(LBITDA)/EBITDA	**(345)**	2,944
Unrealised foreign exchange gains	**(178)**	(598)
Share-based payments charge	**844**	1,202
Net investment in new recruits	**4,254**	1,465
Expenditure on asset held for resale	**264**	257
Rebranding	-	460
Restructuring of business units	**2,387**	508
Establishment costs of underwriting platform	**309**	868
Strategic and operational review	**223**	-
	7,758	7,106

Notes to the accounts

at 31 December 2011

28. Reconciliation of consolidated operating profit to net cash inflow from operating activities

	2011 £000	2010 £000
Operating (loss)/profit	(2,017)	1,308
Depreciation	1,487	1,502
Profit on disposal of fixed assets	(79)	-
Amortisation and write off of goodwill	140	141
Amortisation of debentures	18	36
Share-based payment charge	844	1,202
Net increase/(decrease) in provision for liabilities and charges	44	(243)
Increase in non-insurance debtors	(4,088)	(317)
Increase/(decrease) in non insurance creditors	4,834	(1,477)
Increase in insurance net assets	(118)	(263)
Decrease in pension provision	(1,987)	(1,888)
Unrealised foreign exchange gain	(178)	(598)
Net cash outflow from operating activities	(1,100)	(597)

29. Analysis of net funds year ended 31 December 2011

	2010 £000	Cash flow £000	2011 £000
Cash at bank and in hand	6,454	(4,430)	2,024
Bank loans	(849)	671	(178)
Net funds	5,605	(3,759)	1,846

30. Reconciliation of net cash flow to movement in net funds

	2011 £000	2010 £000
Decrease in cash in the year	(4,430)	(1,585)
Cash flow from financing	671	621
Change in net funds	(3,759)	(964)
Net funds at 1 January	5,605	6,569
Net funds at 31 December	1,846	5,605

Notes to the accounts

at 31 December 2011

31. Analysis of the balances of net cash

Group

	2011 £000	2010 £000	Change in year £000
Insurance cash at bank and in hand	**38,011**	43,170	(5,159)
Other cash at bank and in hand	**2,024**	6,454	(4,430)
	40,035	49,624	(9,589)

The insurance cash at bank and in hand is held on a non-statutory trust basis

32. Related party transactions

There are no related party transactions other than those disclosed within the notes

33. Post balance sheet events

On 23 March 2012 a total of 12,915 'B' ordinary shares were acquired from AHJ Holdings Ltd The employee trust acquired 7,915 B' ordinary shares and the company acquired 5,000 'B' ordinary shares which were subsequently cancelled