



BMS Associates Ltd

Report and Accounts

31 December 2012

Registered No 1494399

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COMPANIES HOUSE



BMS BMS Associates Ltd

Directors

C J Hopton (Chairman)
N J E Cook
R D Cooper
D P Doherty
J Morley
P J Vincent
I Waterston

Secretary

J J F Hills

Auditor

Deloitte LLP
London

Registered Office

One America Square
London
EC3N 2L

Chairman's Report

The first phase of our strategy to build a leading independent insurance and reinsurance intermediary has been successfully implemented. We have created four strong divisions, Reinsurance, Wholesale, Specialist Insurance and Pioneer Underwriting, our MGA division. Each division is now well established and is seeing exciting growth opportunities. Our business has become more global with new clients in emerging markets in Asia Pacific and Latin America. Consequently we are moving to the next phase of implementation where we will develop the divisions in an integrated fashion.

Last year BMS delivered a strong financial performance. Revenues grew by 21% to £64m and underlying EBITDA, our preferred measure of profitability, increased by 15%. Overall since 2010 BMS has grown revenues by 27%.

During the year we strengthened our senior management team by appointing three of our divisional heads to the Board. Nick Cook joined BMS in 2010 and has led the impressive development of our Wholesale businesses. Darren Doherty set up Pioneer Underwriting, our MGA division, in 2011 and has overseen its highly successful start-up. Ian Waterston is Chairman of BankServe, our Marine and Aviation Finance business, which has continued to deliver outstanding results. The experience and skills which they each bring to the Board have already proved beneficial. I look forward to working with them in the future.

Since the year end Carl Beardmore has stepped down as Group Chief Executive. He oversaw the successful implementation of the first phase of the strategy. However he recognised that BMS needs a different skill-set to implement the next phase and wanted to make way for a new appointment. We have a search underway to find a replacement. In the interim I have become acting Executive Chairman with the Group's Executive Committee reporting to me. On behalf of the Board I would like to thank Carl for his contribution.

During 2012 each of our divisions made good progress. The Reinsurance division enjoyed particular success. Its revenues increased by 25%. New clients were won in the US thanks to the efforts of the producers we have recruited and revenues from existing clients grew in the UK. In an environment where personal relationships are so important this reflects the benefits of having high quality, experienced brokers. As planned we opened an office in New York to serve our clients on the East Coast more effectively.

Our Wholesale division saw further progress. Revenues increased as the Specialty Risks team grew and the new Risk Solutions team won new business. We have now opened an office in Sydney and expanded our operations in Canada to continue the momentum.

Pioneer Underwriting, in its first full year of operation, demonstrated the potential that it has for the Group. It grew revenues strongly in the UK and achieved an impressive level of profitability. It also added new teams to fuel growth both in the UK and in the US in the coming years.

Chairman's Report (continued)

Finally our two Specialist Insurance businesses continued to deliver excellent results in the face of difficult circumstances

In addition to investing in new teams and restructuring existing teams we invested £5m to strengthen the business through

- Further investment in our IT systems - a new underwriting platform, an upgraded broking system and a new CRM system, and
- Continued investment in actuarial and analytics skills including capital markets skills to allow us to provide best advice and direction to clients

We also bought further shares from AHJ in line with the agreement we entered into with them in 2011

Our culture is important to us. We were delighted to be voted in the US as one of the Best Places to Work in Insurance by Business Insurance Magazine and Best Companies Group, a testament to the culture and team spirit that has been created across our US offices. In the UK, we were included in the "Ones to Watch" category of the Sunday Times list of best places to work. Recognising that people are the core of our business, we appointed a new Group Human Resources Director, James Hartley, to lead the development of our People Strategy to attract, develop and retain the best talent in the industry.

As the size of the Group has increased we have enhanced our corporate governance structures on both sides of the Atlantic and our risk management processes to reflect the enlarged scope of our businesses.

2013 has started well for us. Our existing investments are paying off. We have seen further growth in revenues as our new production teams and our MGA have gained increased momentum. Overall the business is trading profitably and is cash generative. With each of our divisions now established we are seeing many high calibre investment opportunities.

As we move into the next phase of our strategy implementation we have modest gearing and positive cash-flow to enable us to continue to invest. We intend to complete the acquisition of AHJ's shares and will also invest selectively where we see attractive returns.

On behalf of the Board, I would like to thank all our colleagues at BMS who have worked so hard during the past year. Their efforts have enabled us to announce encouraging results and I look forward to their support in the next phase of our development.

Christopher Hopton
Chairman

Financial review

Overview

In my 2011 report I commented that we expected 2012 to be a year of significant growth for BMS. I am very pleased to be able to report that the group has grown by 21% to achieve revenue of £64m which in dollar terms means we have broken the \$100m threshold. Overall we have grown 27% since 2010. Our revenue per head also grew by 8% to £197k.

Our reinsurance and our wholesale divisions both had strong growth from the new hires who joined BMS during 2010 and 2011 and also from our existing teams. Our specialist businesses produced another excellent revenue performance in 2012. In our Underwriting division 2012 was the first full year of trading for its primary business, Pioneer Underwriting, and the division achieved revenue of £5.1m.

Our key measure of profitability is Underlying EBITDA and during 2012 this was £9.1m, 15% up on 2011.

Total staff and related costs amount to 70% of our total cost base (2011: 71%) and our average headcount increased by 12%. We welcomed 67 new staff during 2012 and we now have 340 staff across 11 locations of which 30% are based in North America. Nearly half of the current BMS staff joined since 2010.

The investments we have made both in developing our business and taking necessary restructuring action have inevitably affected the results. After restructuring charges and net investment in new teams, which in aggregate cost £6m, we recorded a loss before tax of £1m. This loss also includes non-cash charges of £3m relating to an accounting charge for share options issued to employees and depreciation and amortisation of assets.

At the year end BMS had net debt of £3.9m which is well within the financial parameters of our bank facility.

Trading

In 2012 our revenue was split as follows:

Reinsurance	55%
Wholesale insurance	15%
Specialist insurance	22%
Underwriting	8%

Reinsurance

Our overall reinsurance revenues grew by 25% during 2012. This was primarily driven by growth in our US Property & Casualty business and our UK revenue also improved by 5%. We continue to invest in actuarial and modelling capabilities in order to provide leading edge services to our customers.

Wholesale Insurance

Wholesale revenues were 12% up on 2011. This increase comprised new revenue from our Risk Solutions team which grew by 185% and 10% growth in our established Specialty Risk business. We have recently added to our Canadian activities by opening an Ottawa office and established an Australian office to further expand this division.

Financial review (continued)

Specialist Insurance

Our specialist businesses maintained their core revenue which stands at a 10 year high for the group. Total revenue was slightly down as in direct marine the one off war risk insurances have reduced.

Underwriting

The main business unit is Pioneer Underwriting, which performed extremely well in 2012 growing its commission revenue base by 250% and generating substantial profit commission as a result of excellent loss ratios in the portfolio. This MGA platform has expanded its activities during 2012 and we expect new revenue streams to develop both in the UK as we have launched a Professional Indemnity business and in the US where we have added an Underwriting platform.

Cash, liquid resources and net assets

At the year end we held a corporate cash balance of £3.6m and we had borrowings of £7.5m resulting in net debt of £3.9m. We invested over £1.1m in the business during 2012 and we have the resources to continue to invest as opportunities arise in our broking and underwriting businesses.

At the year end we had net current assets of £3.4m which is a substantial improvement over 2011 and we had total net assets, before the accounting value of the pension deficit, of £3.3m. After the pension deficit of £6m we had net liabilities of £2.7m. Against the backdrop of the current trading performance and financial resources available to the group we expect this position to improve substantially in 2013.

Foreign exchange

The US Dollar is the dominant currency for our revenue and we have continued to protect the sterling value of our revenue. The year end position is set out in the notes to the accounts and our dollar portfolio currently stands at \$140m which represents 2.5 years of the expected 2013 Dollar net revenue at an average rate below \$1.60 to the Pound.

Pensions

During 2012 there has been a further reduction in yields on long term bonds which directly affects the accounting value of our pension scheme liabilities. During the year we made contributions of £1.1m and achieved investment gains of £4m. However the movement in the liabilities more than offset these gains. The accounting deficit in our two pension schemes has increased to £6.0m from £2.9m. The long term bond yield is standing at an all time low and a small improvement would be enough to clear the accounting deficit.

2013 and beyond

Our aspirations for 2013 are to continue to grow the business and further leverage the new recruits who have joined BMS. In the first quarter of 2013, in line with our expectations, our revenue has grown by 8% compared to 2012 and trading profit is in line with budget.

Since the year end we have sold a non-core investment for £1.3m realising a gain of £1.2m and we have also exchanged contracts on the sale of our French villa. Our net debt is relatively modest and is expected to remain so throughout 2013.



Financial review (continued)

In summary the repositioning of the group has begun to reap dividends with strong growth in our broking businesses and we have successfully developed our Underwriting division which is already making an excellent contribution

We are confident that the group will post strong financial performance in 2013 and beyond

Paul Vincent
Finance Director

Directors' report

The directors present their Annual Report and audited accounts for the year ended 31 December 2012, which were approved at a meeting of the Board on 2 May 2013

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 agreement comprises two tranches, with the first split into two instalments. On 23 March 2012, the second instalment of the first tranche comprising 12,915 B ordinary shares was settled. The company purchased and cancelled 5,000 of these shares. The remainder were acquired by the BMS Associates Employee Trust.

The 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 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 £1,026,000 (2011 £2,125,000 loss). The loss attributable to shareholders amounted to £1,314,000 (2011 £3,106,000 loss).

At the year end, the group had shareholders' deficit of £2,672,000 which included £3,607,000 of corporate cash. In addition, the group had access to a £10m revolving credit facility of which £7.5m 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 2012 (2011 £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

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

C J Hopton (Chairman)	
N J E Cook	(appointed 06/11/2012)
R D Cooper	
D P Doherty	(appointed 06/11/2012)
J Morley	
P J Vincent	
I Waterston	(appointed 06/11/2012)
C D Beardmore	(resigned 16/04/2013)

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.

Directors' report (continued)

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 £20,414 (2011 £45,904) for charitable purposes during the year. No political contributions were made by the group during the year (2011 £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.

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.

Directors' report (continued)

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 is 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 auditor 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 judgements 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
Secretary
2 May 2013

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 2012, 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 2012 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

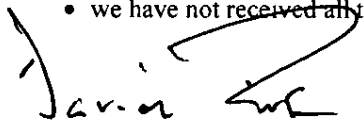
Opinion on other matter prescribed by the Companies Act 2006

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
2 May 2013

Consolidated profit and loss account

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Turnover	2	64,019	52,886
Administrative expenses		(65,299)	(56,054)
Other operating income	4	722	1,151
Operating loss	3	(558)	(2,017)
Share of associate undertakings	11	15	1
Loss on ordinary activities before other income and interest payable		(543)	(2,016)
Other income	5	16	44
Interest payable		(499)	(153)
Loss on ordinary activities before taxation		(1,026)	(2,125)
Tax on loss on ordinary activities	7	(739)	(1,109)
Loss on ordinary activities after taxation		(1,765)	(3,234)
Minority interests	18	451	128
Loss attributable to the shareholders of BMS Associates Ltd		(1,314)	(3,106)

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 2012

	Notes	2012 £000	2011 £000
Total recognised gains and losses – group undertakings		(1,329)	(3,107)
Total recognised gains and losses – associate undertakings		15	1
Total recognised gains and losses relating to the year (as dealt with in the profit and loss account)		(1,314)	(3,106)
Actuarial loss on defined benefit pension schemes	26	(4,542)	(1,152)
Deferred tax relating to actuarial loss		1,091	300
Exchange gain on net investments in overseas companies		(28)	13
Total recognised loss relating to the year		(4,793)	(3,945)

Consolidated and company balance sheet

as at 31 December 2012

	Notes	Group		Company	
		2012 £000	2011 £000	2012 £000	2011 £000
Fixed assets					
Intangible assets	8	926	1,065	–	–
Tangible assets	9	5,063	1,612	–	–
Loans to subsidiary undertakings	10	–	–	12,181	12,181
Investment in subsidiary undertakings	10	–	–	5,531	5,531
Investment in associate undertakings	11	108	93	–	–
Other investments	12	866	435	–	–
		<u>6,963</u>	<u>3,205</u>	<u>17,712</u>	<u>17,712</u>
Current assets					
Assets held for sale	13	1,755	2,557	–	–
Debtors	14	227,968	196,759	12,418	8,329
Cash at bank and in hand including short-term deposits	31	45,016	40,035	26	135
		<u>274,739</u>	<u>239,351</u>	<u>12,444</u>	<u>8,464</u>
Creditors: amounts falling due within one year	15	<u>(271,313)</u>	<u>(239,485)</u>	<u>(8,542)</u>	<u>(14,771)</u>
Net current assets/(liabilities)		<u>3,426</u>	<u>(134)</u>	<u>3,902</u>	<u>(6,307)</u>
Total assets less current liabilities		<u>10,389</u>	<u>3,071</u>	<u>21,614</u>	<u>11,405</u>
Creditors: amounts falling due after one year	16	<u>(7,500)</u>	<u>–</u>	<u>(7,500)</u>	<u>–</u>
Provisions for liabilities and charges	17	<u>(201)</u>	<u>(81)</u>	<u>–</u>	<u>–</u>
Minority interest	18	<u>616</u>	<u>168</u>	<u>–</u>	<u>–</u>
Total net assets before pension liability		<u>3,304</u>	<u>3,158</u>	<u>14,114</u>	<u>11,405</u>
Pension liability	26	<u>(5,976)</u>	<u>(2,946)</u>	<u>(2,803)</u>	<u>(528)</u>
Total net (liabilities)/assets		<u>(2,672)</u>	<u>212</u>	<u>11,311</u>	<u>10,877</u>
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	–	–
Profit and loss account	21	(3,055)	374	11,918	12,029
Share option reserve	21	3,335	2,235	3,335	2,235
		<u>5,608</u>	<u>7,937</u>	<u>19,591</u>	<u>18,602</u>
Investment in own shares	23	<u>(8,280)</u>	<u>(7,725)</u>	<u>(8,280)</u>	<u>(7,725)</u>
Equity shareholders' (deficit)/funds	22	<u>(2,672)</u>	<u>212</u>	<u>11,311</u>	<u>10,877</u>

The financial statements for BMS Associates Ltd, company number 1494399, were approved by the Board of Directors on 2 May 2013. The accompanying notes form an integral part of the financial statements. Signed on behalf of the Board of Directors



P J Vincent
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2012

	Notes	2012 £000	2012 £000	2011 £000	2011 £000
Net cash inflow/(outflow) from operating activities	28		1,205		(1,100)
Returns on investments and servicing of finance					
Income from unlisted investments		7		34	
Income from listed investments		9		10	
Net interest payable		(499)		(153)	
Net cash outflow from returns on investments and servicing of finance			(483)		(109)
Taxation					
Tax paid			(418)		(325)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(4,073)		(1,377)	
Sale of tangible fixed assets		-		668	
Purchase of fixed asset investment		(450)		(96)	
Net cash outflow from capital expenditure and financial investment			(4,523)		(805)
Net cash outflow before financing			(4,219)		(2,339)
Financing					
Sale of own shares		1,853		1,102	
Purchase of own shares		(3,373)		(2,322)	
Bank loans received		7,500		-	
Repayment of bank loans		(178)		(671)	
Premium paid on option to purchase equity		-		(200)	
			5,802		(2,091)
Increase/(decrease) in cash and cash equivalents	30, 31		1,583		(4,430)

Notes to the accounts

at 31 December 2012

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention, 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, £1,046,000 profit (2011 - £2,031,000 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 Chairman'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 recognises 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 2012

1. Accounting policies (continued)

Profit Commission

Profit commission is recognised when the amount can be reliably estimated, with a reasonable degree of certainty

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 monthly 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. Depreciation commences once 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 receivables 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 2012

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 2012

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 2012

2. Turnover	2012	2011
	£000	£000
Geographical analysis of turnover by source of contract		
North America	34,383	28,466
Rest of the World	17,247	13,748
United Kingdom	12,389	10,672
	<u>64,019</u>	<u>52,886</u>
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 £47,000 (2011 £63,000)		
3. Operating loss	2012	2011
	£000	£000
Operating loss/profit is stated after charging/(crediting):		
Staff costs including directors' emoluments:		
Salary and performance bonus	37,300	30,354
Social security costs	2,842	2,698
Other pension costs – defined benefit current and past service cost (note 26)	219	198
– defined contributions (note 26)	1,941	1,586
Share-based payment charge	1,432	844
Other staff costs	1,706	1,610
	<u>45,440</u>	<u>37,290</u>
Depreciation of tangible fixed assets (note 9)	622	1,487
Amortisation of goodwill (note 8)	139	140
Operating lease rentals	2,840	1,859
Auditor's remuneration – audit fee, including company (2012 £25,000, 2011 £25,000)	277	226
Auditor's remuneration – tax services	127	83
Auditor's remuneration – information technology services	-	104
Auditor's remuneration – other services	75	-
Unrealised foreign exchange gain	(103)	(178)
	<u>2012</u>	<u>2011</u>
	<u>No.</u>	<u>No.</u>
The average number of employees during the year was	<u>325</u>	<u>291</u>

Notes to the accounts

at 31 December 2012

4. Other operating income

	2012 £000	2011 £000
Bank interest receivable	79	311
Consultancy fees	31	3
Rental income receivable	612	775
Licence fee receivable	–	62
	<u>722</u>	<u>1,151</u>

5. Other income

	2012 £000	2011 £000
Income from unlisted investment	7	34
Income from listed investment	9	10
	<u>16</u>	<u>44</u>

6. Directors

	2012 £000	2011 £000
Remuneration of directors of the company included in staff costs	<u>1,429</u>	<u>1,624</u>

The company contributions payable to the defined contribution pension scheme amounted to £82,031 (2011 £102,473). During the year, one director (2011 one) was a member of the defined benefit schemes and five (2011 two) directors were members of the defined contribution schemes. Also during the year, no directors (2011 two) received share option commitments under the proposed Long Term Incentive Plan and two directors (2011 nil) were granted options under the Unapproved Share Option Plan. No directors exercised share options under the Unapproved Share Option Plan.

The emoluments payable to the highest paid director were £327,555 (2011 £541,099). Contributions to the defined contribution scheme for the highest paid director were £16,175 (2011 £43,700). There was no further remuneration or emoluments relating to the highest paid director.

Notes to the accounts

at 31 December 2012

7. Tax on loss on ordinary activities

	2012 £000	2011 £000
The taxation charge comprises		
Current tax		
UK corporation tax at 24.5% (2011: 26.5%)	738	764
Prior years' over provision	(85)	(146)
Total current tax	653	618
Deferred tax		
Origination and reversal of timing differences	(308)	(282)
Prior years' under provision	62	10
Pension fund deferred tax charge	162	556
Rate difference	170	207
Tax on loss on ordinary activities	739	1,109

Factors affecting tax charge for the year

The tax rate for the year is higher than the standard rate of tax in the UK (24.5%). The differences are explained below

	2012 £000	2011 £000
Loss on ordinary activities before tax	(1,026)	(2,125)
Share of associate	(15)	(1)
	(1,041)	(2,126)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(255)	(563)
Effects of		
Expenses not deductible for tax purposes	521	311
Losses from overseas subsidiaries	317	1,199
Other timing differences	431	266
Accelerated capital allowances	(157)	215
Income not taxable	(47)	(132)
Pension fund deferred tax	(162)	(567)
Share option relief	(82)	(21)
Deferred trading losses	172	82
Prior years' over provision	(85)	(146)
Rate difference	-	(5)
Loss on disposal of fixed assets	-	(21)
Current tax charge for the year	653	618

The Finance Act 2012, which provides for a reduction in the main rate of UK corporation tax to 23% effective from 1 April 2013 was enacted on 17 July 2012. As this rate was substantively enacted prior to 31 December 2012, it has been reflected in the deferred tax asset at 31 December 2012.

The UK Government has also indicated that it intends to enact further reductions in the main tax rate to 21% from 1 April 2014 and 20% from 1 April 2015. These changes to the main tax rate have not been substantively enacted at the Balance Sheet date, and, therefore, are not included in these financial statements.

Notes to the accounts

at 31 December 2012

8. Intangible fixed assets

Group

	2012 £000	2011 £000
Goodwill arising on the acquisition of subsidiary undertakings		
Cost		
At 1 January and 31 December	3,501	3,501
Amortisation		
At 1 January	2,436	2,296
Charged in the year	139	140
At 31 December	2,575	2,436
Carrying value		
At 31 December	926	1,065

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.

9. Tangible fixed assets

Group

	Leasehold property improvements £000	Fixtures, fittings and equipment £000	Computer software and hardware £000	Total £000
Cost				
At 1 January 2012	7,375	3,071	3,971	14,417
Additions	156	391	3,526	4,073
At 31 December 2012	7,531	3,462	7,497	18,490
Accumulated depreciation				
At 1 January 2012	7,329	2,511	2,965	12,805
Charged in year	64	167	391	622
At 31 December 2012	7,393	2,678	3,356	13,427
Net book value				
at 31 December 2012	138	784	4,141	5,063
Net book value				
at 31 December 2011	46	560	1,006	1,612

Notes to the accounts

at 31 December 2012

10. Loans and investment in subsidiary undertakings

Company

	Long Term Shares		Loans		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Cost	8,052	8,052	15,181	11,121	23,233	19,173
Loans issued in the year	-	-	-	4,060	-	4,060
At 31 December	8,052	8,052	15,181	15,181	23,233	23,233
Provision for impairment						
At 31 January and 31 December	2,521	2,521	3,000	3,000	5,521	5,521
Carrying value						
At 31 December	5,531	5,531	12,181	12,181	17,712	17,712

Details of the principal subsidiary undertakings at 31 December 2012 all of which are consolidated are

Name	Principal activity	Company	Percentage held by Subsidiaries
		%	%
BankServe Insurance Services Ltd	Insurance broking	100	-
BMS Bermuda Ltd	Reinsurance broking	-	100
BMS Group Ltd	Reinsurance and insurance broking	100	-
BMS Intermediaries Inc	Reinsurance broking	-	100
Bms Professional and Financial Services Ltd	Reinsurance and insurance broking	73	-
BMS Risk Solutions Ltd	Reinsurance and insurance broking	62	-
BMS Specialty Risks Underwriting Managers Ltd	Insurance services	-	100
BMS US Holdings Inc	Corporate investment	100	-
JH Insurance Services	Insurance services	-	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
Pioneer Underwriting Management Inc	Insurance underwriting agency	-	100
Pioneer Wholesale Ltd	Reinsurance and insurance broking	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
Pioneer Underwriting Management Inc	USA

Notes to the accounts

at 31 December 2012

11. Investment in associate undertakings

	2012 £000	2011 £000
At 1 January	93	92
Share of associate profit in year	15	1
At 31 December	<u>108</u>	<u>93</u>

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

Details of the associate undertakings at 31 December 2012 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

	2012 £000	2011 £000
At 1 January	435	357
Additions in year	450	96
Amortisation of debentures	(19)	(18)
At 31 December	<u>866</u>	<u>435</u>

All of the other investments are unlisted other than the investment in United Insurance Holdings Corp, which had a carrying value of £144,000. United Insurance Holdings Corp is publicly traded on NASDAQ. This investment was sold in March 2013 for consideration of £1,352,000.

Notes to the accounts

at 31 December 2012

13 Asset held for sale

Group

	2012 £000	2011 £000
Freehold property for resale		
Cost		
At 1 January and 31 December	2,557	2,557
Provision for impairment		
Charged in the year	802	-
At 31 December	802	-
Carrying value		
At 31 December	1,755	2,557

During the year the property has been impaired to the expected realisable value

14. Debtors

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Insurance debtors	221,892	188,894	-	-
Amount due from subsidiary undertakings	-	-	11,625	7,736
Other debtors	669	1,262	22	-
Deferred tax (note 19)	1,180	1,026	768	592
Prepayments and accrued income	4,227	5,577	3	1
	227,968	196,759	12,418	8,329

15. Creditors: amounts falling due within one year

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Insurance creditors	255,495	221,150	-	-
Amount owed to subsidiary undertakings	-	-	8,426	11,708
Other creditors including social security	748	680	-	-
Taxation	446	153	-	-
Accruals and deferred income	14,624	17,324	116	3,063
Bank loan	-	178	-	-
	271,313	239,485	8,542	14,771

Notes to the accounts

at 31 December 2012

16. Creditors: amounts falling due after one year

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Bank loan	7,500	-	7,500	-

The revolving credit facility is repayable as follows

	2012	2011
	£000	£000
Repayable between one and two years	7,500	-

BMS Associates Ltd entered into a £10m revolving credit facility (RCF) in 2011 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. Drawdowns are made for a 3 or 6 month period and the whole facility is available for subsequent drawdowns subject to financial covenants. A fixed and first floating charge was granted over the assets of the company.

17. Provisions for liabilities and charges

Group

	2012	2011
	£000	£000
Errors and Omissions provision		
At 1 January	81	37
Utilisation	(18)	(22)
Increase in provision	138	66
At 31 December	201	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 2012

18. Minority interests

	2012 £000	2011 £000
At 1 January	168	40
Loss on ordinary activities after taxation	451	128
Minority share of share capital	(3)	-
At 31 December	<u>616</u>	<u>168</u>

19. Deferred taxation

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Capital allowances				
At 1 January	271	274	1	13
Charge in the year	(185)	(3)	-	(12)
At 31 December	<u>86</u>	<u>271</u>	<u>1</u>	<u>1</u>
Other timing differences				
At 1 January	755	587	591	421
Credit in the year	339	168	176	170
At 31 December	<u>1,094</u>	<u>755</u>	<u>767</u>	<u>591</u>
Deferred tax asset				
At 31 December	<u>1,180</u>	<u>1,026</u>	<u>768</u>	<u>592</u>

A deferred tax asset of £5,705,000 (2011 - £4,817,000) on the losses incurred in overseas subsidiaries has not been recognised within the BMS Associates Ltd group of companies

At 31 December 2012, management of the BMS Associates Ltd group of companies expect capital losses of £2,088,000 (2011 £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 £480,240 (2011 £453,120). The gain generated by the sale of shares in United Insurance Holdings Corp, as disclosed in note 12, will be fully relieved by the capital losses carried forward at the year end.

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 2012

20. Called up share capital

	2012 £	2011 £
Authorised		
1,000 (2011 - 1,000) A ordinary shares of 5p each - non equity	50	50
398,999 (2011 - 398,999) B ordinary shares of 5p each - equity	19,950	19,950
1 (2011 - nil) C ordinary share of 5p each - equity	-	-
	<u>20,000</u>	<u>20,000</u>
Allotted and fully paid		
1,000 (2011 - 1,000) A ordinary shares of 5p each - non equity	50	50
253,314 (2011 - 258,314) B ordinary shares of 5p each - equity	12,666	12,916
1 (2011 - nil) C ordinary share of 5p each - equity	-	-
	<u>12,716</u>	<u>12,966</u>

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 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

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 2012

21. Reserves

	Group		Company	
	2012	2011	2012	2011
	£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
Transfer to profit and loss account	-	(523)	-	(523)
At 31 December	-	-	-	-
Profit and loss account				
At 1 January	374	6,055	12,029	11,085
(Loss)/profit attributable to shareholders	(1,314)	(3,106)	1,046	2,031
Realised loss on own shares	(194)	(137)	(194)	(137)
Actuarial (loss)/gain on pension schemes	(3,451)	(852)	(2,521)	649
Exchange gain on net investments in overseas companies	(28)	13	-	-
Transfer from share option reserve	332	78	332	78
Transfer from revaluation reserve	-	523	-	523
Share purchase obligation	2,000	(2,000)	2,000	(2,000)
Cancellation of shares	(774)	-	(774)	-
Premium paid on option to purchase equity	-	(200)	-	(200)
At 31 December	(3,055)	374	11,918	12,029
Share option reserve				
At 1 January	2,235	1,469	2,235	1,469
Charge in the year	1,432	844	1,432	844
Transfer to profit and loss account	(332)	(78)	(332)	(78)
At 31 December	3,335	2,235	3,335	2,235

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 £7,707,000 (2011 - £7,902,000) and the group pension deficit £5,976,000 (2011 - £2,946,000) net of taxation.

The share purchase obligation relates to the second instalment of the first tranche to repurchase the shareholding in BMS Associates Limited from AHJ Holdings Limited, as disclosed in the directors' report. This was settled on 23 March 2012.

Notes to the accounts

at 31 December 2012

22. Reconciliation of movements in equity shareholders' (deficit)/funds

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Opening equity shareholders' funds	7,937	13,375	18,602	17,415
(Loss)/profit attributable to shareholders	(1,314)	(3,106)	1,046	2,031
Realised loss on own shares	(194)	(137)	(194)	(137)
Actuarial (loss)/gain on pension schemes	(3,451)	(852)	(2,521)	649
Share-based payment charge	1,432	844	1,432	844
Exchange (loss)/gain on net investments in overseas companies	(28)	13	–	–
Share purchase obligation	2,000	(2,000)	2,000	(2,000)
Cancellation of shares	(774)	–	(774)	–
Premium paid on option to purchase equity	–	(200)	–	(200)
Closing equity shareholders' funds before investment in own shares	5,608	7,937	19,591	18,602
Investment in own shares	(8,280)	(7,725)	(8,280)	(7,725)
	(2,672)	212	11,311	10,877

23. Employee share ownership programme

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

Group and Company

	2012	2011
	£000	£000
At 31 December	8,280	7,725
	2012	2011
	No	No
At 31 December		
A Shares	720	720
B Shares	68,775	67,726

Notes to the accounts

at 31 December 2012

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

	2012 £000	2011 £000
Commitments expiring		
Within one year	203	46
Between one and five years	2,178	2,467
After more than five years	572	327
	<u>2,953</u>	<u>2,840</u>

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.

As at 31 December 2012, the group had the following forward contracts

	2012		2011	
	Principal	Fair value	Principal	Fair value
	(millions)	£m	(millions)	£m
US Dollars	127.7	2.3	163.7	(2.1)
Canadian Dollars	7.0	0.1	10.0	0.0
Euros	5.0	0.1	6.0	0.2
Total		<u>2.5</u>		<u>(1.9)</u>

The forward contracts as at 31 December 2012 have maturity dates between January 2013 and November 2014. The principal and fair values are calculated against the year end spot rates of US Dollar 1.63 (2011 – 1.55), Canadian Dollar 1.62 (2011 – 1.58) and Euro 1.23 (2011 – 1.20). 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 2012

25. Share-based payments

During the year the group issued share options to certain employees, which vest between 31 March 2013 and 31 March 2015. All options are equity-settled. There were no performance conditions other than the employee continuing to be employed on the vesting date.

	2012		2011	
	Number of Share Options	Exercise Price	Number of Share Options	Exercise Price
Outstanding as at 1 January	4,087	-	7,385	-
Granted during the year	4,338	Nil	639	Nil
Forfeited during the year	(1,059)	Nil	(3,664)	Nil
Exercised during the year	(615)	Nil	(273)	Nil
Outstanding as at 31 December	6,751		4,087	

In December 2012, options with an estimated fair value of £77,000 were exercised.

During the year there were no commitments made to employees under the proposed Long Term Incentive Plan. Commitments related to 2,000 shares were settled during the year. The total commitments at 31 December 2012 were for 56,470 shares (2011: 64,638). 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 the 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 2012

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 the 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

	2012 £000	2011 £000
Contributions paid to defined benefit schemes	1,097	2,131
Contributions paid to defined contribution schemes	1,941	1,586

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

	2012	2011	2010	2009
Rate of increase in salaries	N/A	N/A	N/A	4.30%
Rate of increase for pensions in payment	2.20%	2.20%	3.10%	3.60%
Discount rate	4.60%	4.90%	5.25%	5.85%
Inflation assumption	3.00%	2.70%	3.10%	3.30%

BMS Harris & Dixon

	2012	2011	2010	2009
Rate of increase in salaries	N/A	N/A	N/A	4.30%
Rate of increase for pensions in payment	2.90%	3.50%	3.80%	3.60%
Discount rate	4.60%	4.90%	5.25%	5.85%
Inflation assumption	3.00%	2.70%	3.10%	3.30%

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 2011, inflation increases before a pension comes into payment will be based on the Consumer Prices Index.

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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 5.30% 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	
	2012	2011	2012	2011
Equities	7.6%	6.0%	7.6%	6.0%
Bonds and cash	2.9%	3.2%	3.8%	4.3%
Absolute return funds	5.7%	N/A	5.7%	6.4%
Weighted average return	4.6%	4.6%	4.7%	5.2%

The disclosures showing the demographic assumptions are set out below

BMS Associates and BMS Harris & Dixon

Description	2012	2011
Mortality tables before retirement	90%AMCOO/100%AFC00	AM00/AF00
Mortality tables after retirement	90% of SIPACM1_2011_M/F[100%](yob)	SIPMA CMI_2011_M[1%]
- Life expectancy at age 63, male in 2012	24.6 years	25.6 years
- Life expectancy at age 63 male aged 43 in 2012	26.0 years	27.0 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		
	2012	2011	2010
	£000	£000	£000
Equities	9,615	18,138	16,643
Bonds and cash	22,308	18,199	16,799
Absolute return funds	6,998	-	-
Market value of assets	38,921	36,337	33,442
Present value of liabilities	(42,609)	(37,051)	(36,526)
Deficit in the plan	(3,688)	(714)	(3,084)
Related deferred tax asset	886	186	863
Net pension liability	(2,802)	(528)	(2,221)

Notes to the accounts

at 31 December 2012

26. Pensions (continued)

	BMS Harris & Dixon		
	2012 £000	2011 £000	2010 £000
Equities	1,980	2,183	8,769
Bonds and cash	14,156	13,382	10,994
Absolute return funds	8,412	8,087	4,539
Market value of assets	24,548	23,652	24,302
Present value of liabilities	(28,724)	(26,920)	(26,190)
Deficit in the plan	(4,176)	(3,268)	(1,888)
Related deferred tax asset	1,002	850	529
Net pension liability	(3,174)	(2,418)	(1,359)

The main asset allocations by sector are as follows

BMS Associates

	2012		2011		2010	
	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme assets
Equities	9,615	25%	18,138	50%	16,643	50%
Bonds and cash	22,308	57%	18,199	50%	16,799	50%
Absolute return funds	6,998	18%	-	-	-	-
Total	38,921	100%	36,337	100%	33,442	100%
Actual return on Scheme assets over the previous year	2,680		2,385		3,636	

BMS Harris & Dixon

	2012		2011		2010	
	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme assets
Equities	1,980	8%	2,183	9%	8,769	36%
Bonds and cash	13,613	56%	13,382	57%	10,994	45%
Absolute return funds	8,955	36%	8,087	34%	4,539	19%
Total	24,548	100%	23,652	100%	24,302	100%
Actual return/(loss) on Scheme assets over the previous year	1,331		(473)		2,375	

Notes to the accounts

at 31 December 2012

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
	2012 £000	2012 £000	2012 £000	2011 £000	2011 £000	2011 £000
Market value of assets at the beginning of the year	36,337	23,652	59,989	33,442	24,302	57,744
Expected return on Scheme assets	1,669	1,219	2,888	1,954	1,501	3,455
Actuarial gain/(loss)	1,011	112	1,123	431	(1,974)	(1,543)
Employer's contributions	476	621	1,097	1,433	698	2,131
Benefits paid	(572)	(1,056)	(1,628)	(923)	(875)	(1,798)
Market value of assets at the end of the year	<u>38,921</u>	<u>24,548</u>	<u>63,469</u>	<u>36,337</u>	<u>23,652</u>	<u>59,989</u>

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
	2012 £000	2012 £000	2012 £000	2011 £000	2011 £000	2011 £000
Value of liabilities at the beginning of the year	37,051	26,920	63,971	36,526	26,190	62,716
Interest cost on Scheme liabilities	1,802	1,304	3,106	1,894	1,352	3,246
Past service cost	—	219	219	—	198	198
Benefits paid	(572)	(1,056)	(1,628)	(923)	(875)	(1,798)
Actuarial (gains)/losses	4,328	1,337	5,665	(446)	55	(391)
Market value of liabilities at the end of the year	<u>42,609</u>	<u>28,724</u>	<u>71,333</u>	<u>37,051</u>	<u>26,920</u>	<u>63,971</u>

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 2012 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 2012

26. Pensions (continued)

Amounts charged to operating profit

	2012			2011		
	BMS Associates £000	BMS Harris & Dixon £000	Total £000	BMS Associates £000	BMS Harris & Dixon £000	Total £000
Current service cost	—	—	—	—	—	—
Past service cost	—	219	219	—	198	198
Total operating charge	—	219	219	—	198	198

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

	2012			2011		
	BMS Associates £000	BMS Harris & Dixon £000	Total £000	BMS Associates £000	BMS Harris & Dixon £000	Total £000
Interest cost	(1,802)	(1,304)	(3,106)	(1,894)	(1,352)	(3,246)
Expected return on pension scheme assets	1,669	1,219	2,888	1,954	1,501	3,455
Total	(133)	(85)	(218)	60	149	209

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

	BMS Associates	BMS Harris & Dixon	Total	BMS Associates	BMS Harris & Dixon	Total
	2012 £000	2012 £000	2012 £000	2011 £000	2011 £000	2011 £000
Actuarial gains/(losses)	(3,317)	(1,225)	(4,542)	877	(2,029)	(1,152)
Total (loss)/gains recognised in the STRGL	(3,317)	(1,225)	(4,542)	877	(2,029)	(1,152)

Notes to the accounts

at 31 December 2012

26. Pensions (continued)

History of Scheme assets, liabilities, experience gains and losses

BMS Associates

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Market value of Scheme assets	38,921	36,337	33,442	28,677	23,662
Value of Scheme liabilities	42,609	37,051	36,526	34,214	28,607
Deficit in the Scheme	(3,688)	(714)	(3,084)	(5,537)	(4,945)
Experience (losses)/gains Arising on Scheme liabilities % of Scheme liabilities	58 0.14	(698) (1.84)	229 0.63	(656) (1.92)	405 1.42
Experience gains/(losses) Arising on Scheme assets % of Scheme assets	1,011 2.60	431 1.19	1,794 5.36	3,300 11.51	(4,174) (17.64)

BMS Harris & Dixon

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Market value of Scheme assets	24,548	23,652	24,302	22,081	20,878
Value of Scheme liabilities	28,724	26,920	26,190	24,252	23,849
Deficit in the Scheme	(4,176)	(3,268)	(1,888)	(2,171)	(2,971)
Experience (losses)/gains Arising on Scheme liabilities % of Scheme liabilities	1 0.00	(272) (1.01)	326 1.24	883 3.64	(1,434) (6.01)
Experience (losses)/gains Arising on Scheme assets % of Scheme assets	112 0.46	(1,974) (8.35)	967 3.98	2,024 9.17	(4,195) (20.09)

Notes to the accounts

at 31 December 2012

26. Pensions (continued)

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

	2012			2011		
	BMS	Harris &		BMS	Harris &	
	Associates	Dixon	Total	Associates	Dixon	Total
	£000	£000	£000	£000	£000	£000
Deficit in Scheme at beginning of the year*	(714)	(3,268)	(3,982)	(3,084)	(1,888)	(4,972)
Movement in year						
Net interest (cost)/return on assets	(133)	(85)	(218)	60	149	209
Contributions	476	621	1,097	1,433	698	2,131
Past service cost	—	(219)	(219)	—	(198)	(198)
Actuarial gain/(loss)	(3,317)	(1,225)	(4,542)	877	(2,029)	(1,152)
Deficit in Scheme at the end of the year*	(3,688)	(4,176)	(7,864)	(714)	(3,268)	(3,982)

*Amounts are stated gross of deferred tax

27. Underlying EBITDA

	2012	2011
	£000	£000
Audited EBITDA/(LBITDA)	234	(345)
Minority share of loss before tax	581	171
Unrealised foreign exchange gains (note 3)	(103)	(178)
Share-based payments charge (note 3)	1,432	844
Net investment in new recruits	4,432	4,254
Expenditure and impairment on asset held for resale	1,246	264
IT and property costs	190	—
Restructuring of business units	1,525	2,387
Movement in legacy funding provision	(437)	—
Establishment costs of underwriting platform	—	309
Strategic and operational review	—	223
	<u>9,100</u>	<u>7,929</u>

EBITDA/LBITDA comprises the loss/profit attributable to the shareholders of BMS Associates Ltd adjusted for interest, tax, depreciation and amortisation. The net investment in new recruits relates to the direct costs of new teams in the current and prior year less any income they have produced, the expenditure on asset held for resale includes an impairment of the carrying value of the asset of £802,000 (note 13), and costs expensed in the year of £444,000, the IT and property costs are consultancy costs for developing the MGA platform and legal fees in respect of a lease negotiation.

Notes to the accounts

at 31 December 2012

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

	2012 £000	2011 £000
Operating loss	(558)	(2,017)
Depreciation	622	1,487
Profit on disposal of fixed assets	-	(79)
Amortisation and write off of goodwill	139	140
Amortisation of debentures	19	18
Share-based payment charge	1,432	844
Net increase in provision for liabilities and charges	120	44
Decrease/(increase) in non-insurance debtors	2,591	(4,088)
(Decrease)/increase in non insurance creditors	(602)	4,834
Increase in insurance net assets	(1,948)	(118)
Decrease in pension provision	(507)	(1,987)
Unrealised foreign exchange gain	(103)	(178)
Net cash inflow/(outflow) from operating activities	<u>1,205</u>	<u>(1,100)</u>

29. Analysis of net funds/(debt)

	2011 £000	Cash flow £000	2012 £000
Cash at bank and in hand	2,024	1,583	3,607
Bank loans	(178)	(7,322)	(7,500)
Net funds/(debt)	<u>1,846</u>	<u>(5,739)</u>	<u>(3,893)</u>

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

	2012 £000	2011 £000
Increase/(decrease) in cash in the year	1,583	(4,430)
Cash flow from financing	(7,322)	671
Change in net funds	<u>(5,739)</u>	<u>(3,759)</u>
Net funds at 1 January	1,846	5,605
Net (debt)/funds at 31 December	<u>(3,893)</u>	<u>1,846</u>

Notes to the accounts

at 31 December 2012

31. Analysis of the balances of net cash

Group

	2012 £000	2011 £000	Change in year £000
Insurance cash at bank and in hand	41,409	38,011	3,398
Other cash at bank and in hand	3,607	2,024	1,583
	<u>45,016</u>	<u>40,035</u>	<u>4,981</u>

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

The investment in United Insurance Holdings Corp was sold in March 2013 for a total consideration of £1,352,000

On 29 March 2013 an offer was accepted to sell the property held for sale (note 13) The sale is conditional on the buyer obtaining a mortgage for the purchase of the property