

Annual Report 2010

BMS at a glance

Exceptional people, tailored solutions, broker of choice: 30 years of BMS

BMS's 30th anniversary year in 2010 was a year of investment and progress that saw BMS break through the £50m (\$83m) revenue mark. This is testament to the renewed momentum and determination within the group to deliver best in class service to our clients within our Reinsurance, Wholesale & Direct insurance divisions.

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BMS at a glance (continued)

With our 30 years of broking experience in specialist classes of business and with offices in London, Bermuda and throughout North America – we offer our clients superior product service and flexibility making us the best alternative broker in the market. The breadth of our business also provides stability, allowing us to withstand the fluctuations of demand, pricing and capacity across different markets.

Visit our new website: www.bmsgroup.com to experience our full range of product offerings, meet our people and see why BMS is the broker of choice and the valid alternative in the market.

Facts & Figures

We understand our clients' needs and pay attention to the market – so we deliver the best, tailored solution for each individual client, no matter the size. These traits ensured that 2010 was another successful year for the BMS group.

Key figures are as follows:

2010 Turnover

£50.2m \$83.3m

2010 Underlying EBITDA†

£7.1m \$11.8m

2010 Brokerage per head

£188,000 \$312,080

Underlying EBITDA up 28%*

Brokerage and Brokerage per head up 7%*

† As defined in Note 1 to the financial statements

* From prior year



Last year we continued to make good progress towards achieving the ambitious targets we have set ourselves.

One important step was to change the structure of the group to enable us to take advantage of strategic opportunities more easily. In addition to our broking business, we have developed a London market underwriting platform as a separate business.

In June 2010, therefore, the practitioners on the Board of BMS Associates, the holding company, moved onto the boards of their respective businesses and I took over from Hugo Crawley as Chairman of BMS Associates.

The momentum we developed in 2010 has continued into 2011 and we look forward to the future with increasing confidence.

Christopher Hopton
Chairman, BMS Associates Ltd

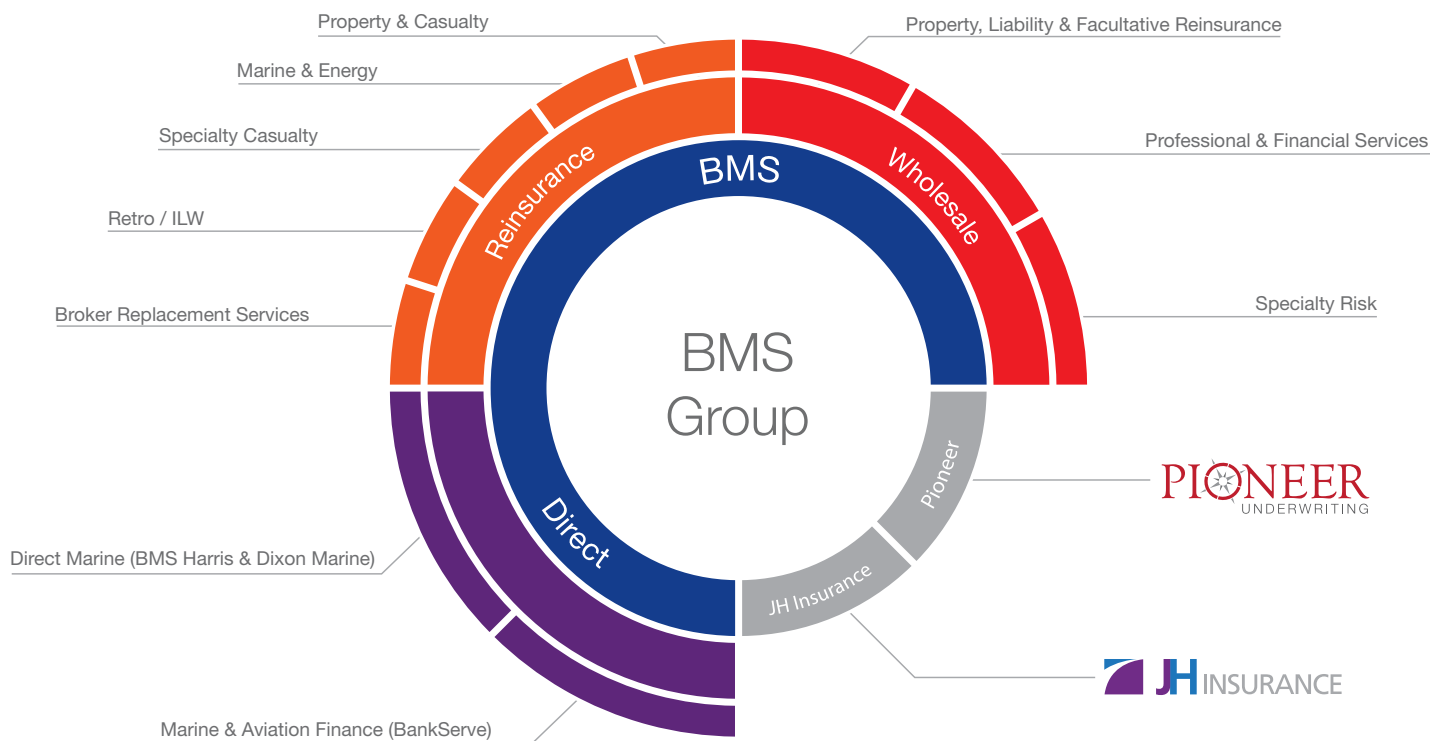
Chairman's report (continued)

To bolster the Board of BMS Associates we made two important appointments: Carl Beardmore became Group CEO and in January 2011 James Morley was appointed as a Non-Executive Director.

Carl's relationship with BMS began nine years ago, initially as a consultant and more recently as a Non-Executive Director. He has made rapid progress in implementing the strategy and provides more details in his CEO's report. James brings with him a wealth of experience from his executive roles in the insurance industry and from his non-executive roles with several public companies.

I would like to acknowledge in particular the contribution which Hugo Crawley made to BMS as Chairman. During his tenure he helped lay the foundations for the exciting opportunities we now have and I am pleased to report that he continues as Chairman of our broking business.

The momentum we developed in 2010 has continued into 2011 and we look forward to the future with increasing confidence.





2010 has been a breakthrough year for BMS; a year in which we broke through the £50m (\$83m) mark in terms of revenue.

We also broke down many of the barriers we needed to overcome to allow us to propel towards our medium term goal of becoming a £100m (\$160m) revenue organisation.

The key to our successful year was our people. We have a tremendous collection of talented people who are now working in a more joined up way and focussing on a common goal. In tough market conditions they have moved BMS forward and created a platform from which great things will be achieved.

People are BMS's horsepower and we will invest continuously to maximise and optimise that horsepower.

Carl Beardmore
CEO, BMS Associates Ltd

Chief Executive's report (continued)

As part of our ambition to grow, we have been adding more exceptional people to our team and during 2011, I am confident that BMS will continue to make significant strides as they combine with our existing talent to create an even more potent force. During 2011 and beyond, we will be adding more people to the business to fuel our ambition of having one of the most respected and impressive teams in the sector. People are BMS's horsepower and we will invest continuously to maximise and optimise that horsepower.

Other key achievements during BMS's 30th year include:

- Opening our new office in Philadelphia.
- The establishment of our 'hub' in Minneapolis. We aim to add substantially to our US platform during the next couple of years including major investment in modelling and analytics.
- Demonstrating our commitment to technological innovation – forging the way for the first ever fully electronic contract placement in the Lloyd's market, using an iPad and the RI3K paperless trading platform – a truly transformational breakthrough.

BMS now has renewed momentum and determination and during 2011 we will be introducing further initiatives revolving around IT systems, underwriting platforms and an intense focus on providing best in class service to our clients.

BMS has always been a good business and 2010 has been a year in which the platform has been created from which it will develop into a truly great independent company providing the highest levels of client satisfaction.

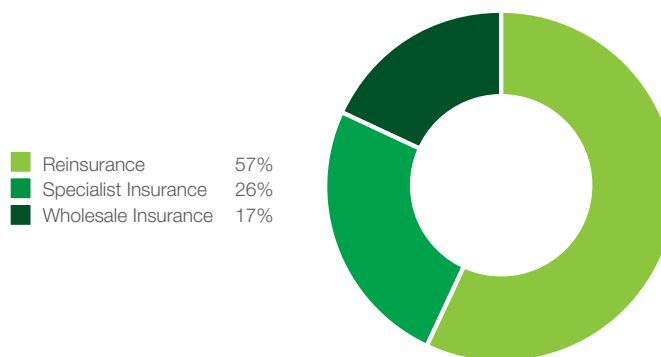
The key to our successful year was our people.



During 2010 the Group made further progress towards its goal to double in size by 2015.

At £50m, income was 7% up on 2009, underlying ebitda rose substantially to £7.1m, an increase of 28%, and brokerage per head increased by 7% to £188,000. We made some significant investments in new hires to complement the breadth of our broking operations and to strengthen the management team. During the last quarter of 2010 we hired a number of new producers and we anticipate that these will start to generate positive returns after 18 months. In addition we have invested in initiatives to improve our revenue streams on our portfolio, to invest in our people and our market proposition. All of the investments have been expensed in the profit and loss account.

In 2010 revenue was split as follows:



Paul Vincent

Finance Director, BMS Associates Ltd

Financial review (continued)

Reinsurance

Despite softening pricing, our North American treaty business performed well on both sides of the Atlantic, posting income growth of 11%. The US platform grew by 12% and we anticipate significant further growth over the next two years reflecting account wins and new hires.

We continued our investment in actuarial and modelling capabilities in order to capitalise more effectively on the exciting opportunities now opening up in the market as sector restructuring sees continued consolidation among our competitors. We see this as an area for continued investment to enable BMS to offer a comprehensive service to our clients.

Our Retrocession business performed well with income up 11%.

Wholesale insurance

In November 2010 we hired a new leader for our Wholesale business area and we anticipate new sources of revenue for 2011. Our overall Wholesale revenues in 2010 were 1% down on 2009 reflecting the soft rating environment. Gains in our Facultative business were offset by declines in our specialty risk business.

Revenues in our US residential construction business were flat and at the year end we took further cost saving measures and restructured the leadership of that business unit.

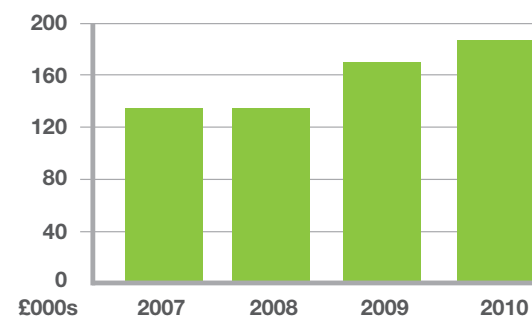
Specialist insurance

Overall revenues in this segment were up 4% on 2009 with Marine & Aviation Finance generating 6% revenue growth with our Direct Marine business holding revenues at 2009 levels.

Net assets and cash

At the year end our consolidated net assets were £6.7m with a corporate cash balance of £6.5m. We had borrowings of £0.8m which are due to be repaid by March 2012.

Brokerage per head



Financial prudence

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 2010 and at the year end had future sales of US Dollar of \$140m which represents 2.5 years of 2010 Dollar net revenue at an average rate below \$1.60 to the Pound.

The deficit in our two pension schemes reduced from £5.6m to £3.6m. This reflected contributions of £2.3m, an investment return of 12% 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.

In summary we have taken a number of positive steps in the financial management of our business to improve performance at a business unit level, protect the future value of our US Dollar revenue and to manage our pension liabilities.

We are confident that the group will continue to post strong financial performance in 2011 and beyond.

Directors' report

as at 31 December 2010

The directors present their Annual Report and audited accounts for the year ended 31 December 2010 which were approved at a meeting of the Board on 15 April 2011.

Business review and future developments

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

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

Profit before tax for the year was £1,060,000 (2009 £89,000). The profit attributable to shareholders amounted to £91,000 (2009 £6,000).

At the year end, the group had shareholders' funds of £6,733,000 which included £6,454,000 of corporate cash. The group's primary forward selling programme is for the US Dollar. At the year end the group had entered into forward contracts and foreign currency options as described in note 24.

No dividends were paid during 2010 (2009 – £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)

C D Beardmore

R D Cooper

J Morley (appointed 11/02/11)

P J Vincent

P R P Boardman (resigned 04/06/10)

H E Crawley (resigned 04/06/10)

D P Doherty (resigned 04/06/10)

R G Greville Williams (resigned 04/06/10)

P M Jansen (resigned 04/06/10)

T J Paske (resigned 04/06/10)

A G Pryce (resigned 04/06/10)

I Waterston (resigned 04/06/10)

Directors' report

as at 31 December 2010

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 £43,158 (2009 – £24,067) for charitable purposes during the year. No political contributions were made by the group during the year (2009 – £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.

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.

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; 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

15 April 2011

Independent auditors' report

to the shareholders of BMS
Associates Ltd

We have audited the financial statements of BMS Associates Ltd for the year ended 31 December 2010 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Group 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.

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 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report

to the shareholders of BMS
Associates Ltd

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

18 April 2011

Consolidated profit and loss account

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Turnover	2	50,217	46,924
Administrative expenses		(50,030)	(47,665)
Other operating income	4	1,121	1,202
Operating profit	3	1,308	461
Share of associate undertakings	11	(30)	12
Profit on ordinary activities before other income and interest payable		1,278	473
Other income	5	23	98
Interest payable		(241)	(482)
Profit on ordinary activities before taxation		1,060	89
Tax on profit on ordinary activities	7	(1,010)	(83)
Profit on ordinary activities after taxation		50	6
Minority Interests	18	41	–
Profit attributable to the shareholders of BMS Associates Ltd		91	6

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 2010

	Notes	2010 £000	2009 £000
Total recognised gains and losses – group undertakings		121	(6)
Total recognised gains and losses – associate undertakings		(30)	12
Total recognised gains and losses relating to the year (as dealt with in the profit and loss account)		91	6
Actuarial gain/(loss) on defined benefit pension schemes		847	(1,559)
Movement in deferred tax relating to pensions liability		(237)	437
Exchange gain/(loss) on net investments in overseas companies		66	(48)
Total recognised gain/(loss) relating to the year		767	(1,164)

Balance sheets

at 31 December 2010

The financial statements for BMS Associates Limited, company number 1494399, were approved by the Board of Directors on 15 April 2011.

The accompanying notes form an integral part of the financial statements.

Signed on behalf of the Board of Directors

P J Vincent

Finance Director

	Notes	Group		Company	
		2010 £000	2009 £000	2010 £000	2009 £000
Fixed assets					
Intangible assets	8	1,205	1,346	–	–
Tangible assets	9	2,311	3,566	565	580
Loans to subsidiary undertakings	10	–	–	8,121	7,982
Investment in subsidiary undertakings	10	–	–	5,531	5,525
Investment in associate undertakings	11	92	122	–	–
Other investments	12	357	324	–	–
		3,965	5,358	14,217	14,087
Current assets					
Assets held for sale	13	2,557	2,502	–	–
Debtors	14	229,617	336,286	5,893	4,601
Cash at bank and in hand including short-term deposits	31	49,624	42,093	309	107
		281,798	380,881	6,202	4,708
Creditors: amounts falling due within one year	15	(275,275)	(374,884)	(7,425)	(7,280)
Net current assets/(liabilities)		6,523	5,997	(1,223)	(2,572)
Total assets less current liabilities		10,488	11,355	12,994	11,515
Creditors: amounts falling due after one year	16	(178)	(1,304)	–	–
Provisions for liabilities and charges	17	(37)	(280)	–	–
Pension liability	26	(3,580)	(5,550)	(2,221)	(3,987)
Minority Interest	18	40	–	–	–
Total net assets		6,733	4,221	10,773	7,528
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	523	523
Profit and loss account	21	6,055	5,636	11,085	9,933
Share option reserve	21	1,469	890	1,469	890
		13,375	12,377	17,415	15,684
Investment in own shares	23	(6,642)	(8,156)	(6,642)	(8,156)
Equity shareholders' funds	22	6,733	4,221	10,773	7,528

Consolidated cash flow statement

for the year ended 31 December 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Net cash outflow from operating activities	28		(597)		(908)
Returns on investments and servicing of finance					
Income from unlisted investments		2		30	
Income from listed investments		21		68	
Net interest payable		(241)		(482)	
Net cash outflow from returns on investments and servicing of finance			(218)		(384)
Taxation					
Tax paid			(376)		(291)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(247)		(80)	
Purchase of fixed asset investment		(69)		(28)	
Net cash outflow from capital expenditure and financial investment			(316)		(108)
Net cash outflow before financing			(1,507)		(1,691)
Financing					
Sale of own shares		773		284	
Purchase of own shares		(230)		(779)	
Repayment of bank loans		(621)		(574)	
			(78)		(1,069)
Decrease in cash and cash equivalents	30, 31		(1,585)		(2,760)

Notes to the accounts

at 31 December 2010

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.

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, £722,000 profit (2009 – £1,737,000 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 represents brokerage and fees earned for placing and servicing risks on behalf of clients. The group recognises this 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 2010

1. Accounting policies (continued)

EBITDA and Underlying EBITDA

EBITDA comprises the 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. The change from underlying profit measured in the prior year is to align the measure with those reported by other London market brokers.

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:

Long-term leasehold property	2%
Leasehold improvements	20%
Fixtures, fittings and equipment	10% to 20%
Computer hardware	25%
Computer software	25%

No depreciation is provided on freehold land.

Revaluation of properties

Individual leasehold properties are considered for revaluation every year and any material change in value is recorded. At a minimum, individual leasehold properties are fully revalued every five years with an interim valuation carried out in the third year. The surplus or deficit on book value is transferred to the revaluation reserve, except where a deficit is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

Notes to the accounts

at 31 December 2010

1. Accounting policies (continued)

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.

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.

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.

Notes to the accounts

at 31 December 2010

1. Accounting policies (continued)

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.

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 bureaux 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 2010

2. Turnover

	2010	2009
	£000	£000
Geographical analysis of turnover by origin of contract		
North America	28,549	24,368
Rest of the World	11,845	12,996
United Kingdom	9,823	9,560
	50,217	46,924

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 £114,000 (2009 – £91,000).

3. Operating profit

	2010	2009
	£000	£000

Operating profit is stated after charging/(crediting):

Staff costs including directors' emoluments:

Salary and performance bonus	26,673	24,497
Social security costs	2,248	2,024
Other pension costs – defined benefit current service cost (note 26)	37	418
– defined contributions (note 26)	1,610	1,263
Share-based payment charge	1,202	690
Other staff costs	1,602	839
	33,372	29,731

Depreciation of tangible fixed assets (note 9)	1,502	1,506
Amortisation of goodwill (note 8)	141	141
Operating lease rentals	1,695	1,680
Exceptional legal fees	–	450
Auditor's remuneration – audit fee, including company (£25,000)	204	226
Auditor's remuneration – tax services	35	31
Auditor's remuneration – pension audit	17	17
Auditor's remuneration – other advisory services	241	5
Unrealised foreign exchange (gains)/losses	(598)	1,468

	2010	2009
	No.	No.
The average number of employees during the year was	267	267

Notes to the accounts

at 31 December 2010

4. Other operating income

	2010 £000	2009 £000
Bank interest receivable	83	233
Consultancy fees	269	183
Rental income receivable	715	715
Licence fee receivable	54	71
	1,121	1,202

5. Other income

	2010 £000	2009 £000
Income from unlisted investment	2	30
Income from listed investment	21	68
	23	98

6. Directors

	2010 £000	2009 £000
Remuneration of directors of the company included in staff costs	2,818	4,595

The company contributions payable to the defined contribution pension scheme amounted to £223,003 (2009 – £403,907). During the year one director (2009 – one) was a member of the defined benefit schemes and ten (2009 – nine) directors were members of the defined contribution schemes. Also during the year nine (2009 – eleven) directors received share option commitments under the proposed Long-Term Incentive Plan, and four (2009 – none) directors exercised options under the Unapproved Share Option Plan.

The emoluments payable to the highest paid director were £542,522 (2009 – £989,961). In addition, in 2010, 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 £12,500 (2009 – £68,300). The accrued pension of the highest paid director under the defined benefit scheme amounts to £nil (2009 – £nil). There was no further remuneration or emoluments relating to the highest paid director.

Notes to the accounts

at 31 December 2010

7. Tax on profit on ordinary activities

	2010 £000	2009 £000
The taxation charge comprises:		
Current Tax		
UK Corporation tax at 28% (2009 – 28%)	561	(34)
Prior years' under/(over) provision	24	(217)
Total current tax	585	(251)
Deferred tax		
Origination and reversal of timing differences	(90)	(98)
Prior years' over provision	(13)	(63)
Pension fund deferred tax charge	528	495
Tax on profit on ordinary activities	1,010	83

Factors affecting tax charge for the year

The tax rate for the year is higher than the standard rate of tax in the UK (28%). The differences are explained below:

	2010 £000	2009 £000
Profit on ordinary activities before tax	1,060	89
Share of associate	30	(12)
	1,090	77
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	305	22
Effects of:		
Expenses not deductible for tax purposes	322	326
Losses/(profits) from overseas subsidiaries	334	(13)
Other timing differences	91	73
Accelerated capital allowances	236	218
Income not taxable	(133)	(128)
Pension fund deferred tax	(529)	(517)
Double tax relief	–	(15)
Share option relief	(175)	–
Deferred trading losses	110	–
Prior years' under/(over) provision	24	(217)
Current tax charge for the year	585	(251)

Notes to the accounts

at 31 December 2010

8. Intangible fixed assets

Group

	£000
Goodwill arising on the acquisition of subsidiary undertakings	
Cost	
At 1 January and 31 December 2010	3,501
Amortisation	
At 1 January 2010	2,155
Charged in year	141
At 31 December 2010	2,296
Carrying value at 31 December 2010	1,205
Carrying value at 31 December 2009	1,346

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

	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 2010	543	7,327	3,619	3,921	15,410
Additions	–	2	22	223	247
At 31 December 2010	543	7,329	3,641	4,144	15,657
Accumulated depreciation					
At 1 January 2010	76	4,958	3,293	3,625	11,952
Charged in year	13	1,164	130	195	1,502
At 31 December 2010	89	6,122	3,423	3,820	13,454
Surplus on revaluation	108	–	–	–	108
Net book value/valuation at 31 December 2010	562	1,207	218	324	2,311
Net book value/valuation at 31 December 2009	575	2,369	326	296	3,566

Notes to the accounts

at 31 December 2010

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 2010	543	58	601
Accumulated depreciation			
At 1 January 2010	76	53	129
Charged in year	13	2	15
At 31 December 2010	89	55	144
Surplus on revaluation	108	–	108
Net book value/valuation at 31 December 2010	562	3	565
Net book value/valuation at 31 December 2009	575	5	580

An external valuer, K Greensted (MRICS) of Allied Surveyors Plc, revalued the long-term leasehold property as at 31 December 2009. The open market value for the property was £575,000 and is reflected in the carrying value of the property.

10. Loans and investment in subsidiary undertakings

Company

	Shares £000	Long-term loans £000	Total £000
Cost			
At 1 January 2010	8,046	10,982	19,028
Share additions in the year	6	–	6
Loans issued in the year	–	139	139
At 31 December 2010	8,052	11,121	19,173
Provision for impairment			
At 1 January 2010 and 31 December 2010	2,521	3,000	5,521
At 31 December 2010	2,521	3,000	5,521
Carrying value at 31 December 2010	5,531	8,121	13,652
Carrying value at 31 December 2009	5,525	7,982	13,507

Notes to the accounts

at 31 December 2010

10. Loans and Investment in subsidiary undertakings (continued)

Details of the principal subsidiary undertakings at 31 December 2010 all of which are consolidated are:

Name	Principal activity	Percentage held by subsidiaries	
		Company %	%
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	–
Jansen & Hastings Insurance Services	Insurance services	–	100
Minova Enterprises Ltd	Corporate investment	100	–
SCI Palmier	Property investment	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
Jansen & Hastings Insurance Services	USA
SCI Palmier	France

11. Investment in associated undertakings

	£000
At 1 January 2010	122
Share of associate loss	(30)
At 31 December 2010	92

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

Details of the associate undertakings at 31 December 2010 are:

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

Notes to the accounts

at 31 December 2010

12. Other investments

Group

	2010	2009
	£000	£000
At 1 January 2010	324	314
Additions in year	69	28
Amortisation of debentures	(36)	(18)
At 31 December 2010	357	324

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 2010 of £704,000. The share price at year end was \$3.10. 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

	2010	2009
	£000	£000
Freehold property for resale	2,557	2,502

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

14. Debtors

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Insurance debtors	225,710	332,536	–	–
Amount due from subsidiary undertakings	–	–	5,452	4,259
Taxation	139	348	–	–
Other debtors	693	828	4	3
Deferred tax (note 19)	861	758	434	339
Prepayments and accrued income	2,214	1,816	3	–
	229,617	336,286	5,893	4,601

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

Notes to the accounts

at 31 December 2010

15. Creditors: amounts falling due within one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Insurance creditors	263,421	361,992	–	–
Amount owed to subsidiary undertakings	–	–	6,294	6,483
Other creditors including taxation and social security	609	579	–	–
Accruals and deferred income	10,574	11,692	1,131	797
Bank loan (note 16)	671	621	–	–
	275,275	374,884	7,425	7,280

Within the accruals and deferred income balance, £455,000 (2009 – £455,000) relates to a capital receipt in connection with the move to the offices in America Square, London during 2006. This will be fully utilised in 2011.

16. Creditors: amounts falling due after one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Deferred income	–	455	–	–
Bank loan	178	849	–	–
	178	1,304	–	–

The deferred income relates to a capital receipt in connection with the move to the offices in America Square, London during 2006.

The bank loan is repayable as follows:

	2010 £000	2009 £000
Repayable within one year	671	621
Repayable between one and two years	178	671
Repayable between two and five years	–	178
	849	1,470

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.

Notes to the accounts

at 31 December 2010

17. Provisions for liabilities and charges

Group

	At 1 January 2010 £000	Utilisation £000	Decrease in provision £000	At 31 December 2010 £000
Errors & Omissions provision	78	(35)	(6)	37
Provision for costs of run off	202	(202)	–	–
	280	(237)	(6)	37

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.

Run-off provision

The run-off provision was established in 2006 for obligations arising as a result of the closure of BMS International Intermediaries Ltd.

18. Minority Interests

	2010 £000	2009 £000
Loss on ordinary activities after taxation	41	–
Minority share of share capital	(1)	–
At 31 December 2010	40	–

Notes to the accounts

at 31 December 2010

19. Deferred taxation

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Capital allowances	274	214	13	9
Other timing differences	587	544	421	330
Deferred tax asset	861	758	434	339

A deferred tax asset of £3,026,000 (2009 – £2,535,000) on the losses incurred in overseas subsidiaries has not been recognised.

At 31 December 2010, management expect capital losses of £2,416,000 to be available to relieve against future capital gains generated within the group. The related tax value of the loss, if fully utilised, is £676,000.

20. Called up share capital

	2010 £	2009 £
Authorised:		
1,000 (2009 – 1,000) 'A' ordinary shares of 5p each – non equity	50	50
399,000 (2009 – 399,000) 'B' ordinary shares of 5p each – equity	19,950	19,950
	20,000	20,000
Allotted and fully paid:		
1,000 (2009 – 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
	12,966	12,966

The holders of the 'A' ordinary shares of 5p each are entitled to vote at the company's general meetings but are not entitled to any dividends and are only entitled to the paid up amount upon winding up.

The holders of the 'B' ordinary shares of 5p each are not entitled to vote at the company's general meetings but are entitled to dividends and any surplus upon winding up.

Notes to the accounts

at 31 December 2010

21. Reserves

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £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 and 31 December	523	523	523	523
Profit and loss account at 1 January	5,636	6,859	9,933	9,521
Profit attributable to shareholders	91	6	722	1,737
Realised loss on own shares	(971)	(59)	(971)	(59)
Actuarial gain/(loss) on pension schemes	610	(1,122)	778	(1,266)
Exchange gain/(loss) on net investments in overseas companies	66	(48)	–	–
Transfer from share option reserve	623	–	623	–
Profit and loss account at 31 December	6,055	5,636	11,085	9,933
Share option reserve				
31 December	1,469	890	1,469	890

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 £6,029,000 (2009 – £7,047,000) and the group pension deficit £3,580,000 (2009 – £5,550,000) net of taxation.

Notes to the accounts

at 31 December 2010

22. Reconciliation of movements in equity shareholders' funds

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Opening equity shareholders' funds	12,377	12,802	15,684	14,474
Profit attributable to shareholders	91	6	722	1,737
Realised loss on own shares	(971)	(59)	(971)	(59)
Actuarial gain/(loss) on pension schemes	610	(1,122)	778	(1,266)
Revaluation of long-term leasehold property	–	108	–	108
Share-based payment charge	1,202	690	1,202	690
Exchange gain/(loss) on net investments in overseas companies	66	(48)	–	–
Closing equity shareholders' funds before investment in own shares	13,375	12,377	17,415	15,684
Investment in own shares	(6,642)	(8,156)	(6,642)	(8,156)
	6,733	4,221	10,773	7,528

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

	2010 £000	2009 £000
At 31 December	6,642	8,156

	2010 No.	2009 No.
At 31 December		
'A' Shares	720	720
'B' Shares	62,787	76,559

Notes to the accounts

at 31 December 2010

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. The lease for the America Square accommodation was a rent free period until June 2008 after which the annual commitment is £2,061,000 per annum payable until the first rent review in September 2011. The contracting party for the lease is BMS Group Limited and its rental obligations have been guaranteed by BMS Associates Ltd.

Annual commitments under non cancellable operating leases are set out below.

	2010 £000	2009 £000
Commitments expiring:		
Within one year	2,086	42
Between one and five years	380	2,388
After more than five years	44	–
	2,510	2,430

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 2010, the group had the following forward contracts and currency options:

	2010		2009	
	Principal (millions)	Fair value £m	Principal (millions)	Fair value £m
Forward contracts				
US Dollars	137.5	(1.1)	97.5	2.3
Canadian Dollars	9.0	(0.3)	8.0	(0.4)
Euros	5.5	(0.0)	3.8	0.1
Currency options				
US Dollars	4.5	(0.1)	31.5	(1.8)
Total		(1.5)		0.2

The forward contracts and currency options as at 31 December 2010 have maturity dates between January 2011 and June 2013. The principal and fair values are calculated against the year end spot rates of US Dollar 1.57 (2009 – 1.61), Canadian Dollar 1.56 (2009 – 1.69) and Euro 1.17 (2009 – 1.13). 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 2010

25. Share-based payments

During 2008 and 2009 the group issued share options to certain employees which vested on 31 December 2010. There were no performance conditions other than the employee continuing to be employed on the vesting date.

	2010		2009	
	Number of share options	Exercise price	Number of share options	Exercise price
Outstanding as at 1 January	10,685	–	10,697	–
Granted during the year	–	Nil	105	Nil
Forfeited during the year	–	Nil	(117)	Nil
Exercised during the year	(3,300)	Nil	–	Nil
Outstanding as at 31 December	7,385		10,685	

In March 2010, options with an estimated fair value of £281,000 were exercised.

In addition, during the year commitments were made to employees under a proposed Long-Term Incentive Plan. The commitments made were for 18,738 shares in April 2010 with 4,025 being exercised during the year. The total commitments at December 2010 are for 50,055 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 were closed to future accrual on 31 January 2010.

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 2008 and the main actuarial assumptions were that the annual compound rate of return on investment would be 5.5% and that annual increases in earnings and pensions would be 3.4% and 2.9% respectively. The assessed value of the assets at the date of the latest actuarial valuation for funding purposes amounted to £27.7m and the actuarial value of the assets was sufficient to cover 75% 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.

Based on the recommendations of the actuary, the ongoing funding rate was set at 21.9% of pensionable salaries with effect from 31 December 2008.

Notes to the accounts

at 31 December 2010

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 1 September 2008 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 7.1% and that annual increases in earnings and pensions would be 4.0% and 3.8% respectively. The assessed value of the assets at the date of the latest actuarial valuation for funding purposes amounted to £22.8m and the actuarial value of the assets was sufficient to cover 90% 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.

Based on the recommendations of the actuary, the ongoing funding rate was set at 29.3% of pensionable salaries with effect from 1 September 2008.

Contributions

	2010 £000	2009 £000
Contributions paid to defined benefit schemes	2,270	2,286
Contributions paid to defined contribution schemes	1,610	1,263

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	2010	2009	2008	2007
Rate of increase in salaries	N/A	4.30%	3.70%	4.70%
Rate of increase for pensions in payment	3.10 %	3.60%	2.60%	3.60%
Discount rate	5.25 %	5.85%	6.10%	6.00%
Inflation assumption	3.20 %	3.30%	2.70%	3.70%

BMS Harris & Dixon	2010	2009	2008	2007
Rate of increase in salaries	N/A	4.30%	3.70%	4.70%
Rate of increase for pensions in payment	3.80 %	3.60%	2.60%	3.60%
Discount rate	5.25 %	5.85%	6.10%	6.00%
Inflation assumption	3.20 %	3.30%	2.70%	3.70%

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.

Notes to the accounts

at 31 December 2010

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 3.25% 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	
	2010	2009	2010	2009
Equities	7.3%	7.8%	7.3%	7.8%
Bonds and cash	4.4%	4.9%	5.4%	5.7%
Absolute return funds	N/A	N/A	6.0%	5.5%
Weighted average return	5.8 %	6.3%	6.2%	6.4%

The disclosures showing the demographic assumptions are set out below.

	BMS Associates and BMS Harris & Dixon	
	2010	2009
Mortality tables before retirement	AM00/AF00	AM00/AF00
Mortality tables after retirement	SIPA_L mc (min 1% pa)	SIPA_L mc (min 1% pa)
– Life expectancy at age 63, male retiring today	24.8 years	24.6 years
– Life expectancy at age 63 male retiring in 15 years' time	26.2 years	26.0 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		
	2010 £000	2009 £000	2008 £000
Equities	16,643	14,505	11,713
Bonds and cash	16,799	14,172	11,949
Market value of assets	33,442	28,677	23,662
Present value of liabilities	(36,526)	(34,214)	(28,607)
Deficit in the plan	(3,084)	(5,537)	(4,945)
Related deferred tax asset	864	1,550	1,384
Net pension liability	(2,220)	(3,987)	(3,561)

	BMS Harris & Dixon		
	2010 £000	2009 £000	2008 £000
Equities	8,769	7,686	6,367
Bonds and cash	10,994	10,096	10,272
Absolute return funds	4,539	4,299	4,239
Market value of assets	24,302	22,081	20,878
Present value of liabilities	(26,190)	(24,252)	(23,849)
Deficit in the plan	(1,888)	(2,171)	(2,971)
Related deferred tax asset	528	608	833
Net pension liability	(1,360)	(1,563)	(2,138)

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26. Pensions (continued)

The main asset allocations by sector are as follows:

	2010		2009		2008	
	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme Assets	Market value £000	% of total Scheme Assets
BMS Associates						
Equities	16,643	50%	14,505	51%	11,713	50%
Bonds and cash	16,799	50%	14,172	49%	11,949	50%
Total	33,442	100%	28,677	100%	23,662	100%
Actual return on Scheme assets over the previous year	3,636		4,650		(2,602)	

	2010		2009		2008	
	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme Assets	Market value £000	% of total Scheme Assets
BMS Harris & Dixon						
Equities	8,769	36%	7,686	35%	6,367	31%
Bonds and cash	10,994	45%	10,096	46%	10,272	49%
Absolute return funds	4,539	19%	4,299	19%	4,239	20%
Total	24,302	100%	22,081	100%	20,878	100%
Actual return on Scheme assets over the previous year	2,375		3,359		(2,470)	

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

	BMS	BMS Harris	Total	BMS	BMS Harris	Total
	Associates	& Dixon		Associates	& Dixon	
	2010	2010		2009	2009	
	£000	£000	£000	£000	£000	£000
Market value of assets at the beginning of the year	28,677	22,081	50,758	23,662	20,878	44,540
Expected return on Scheme assets	1,842	1,408	3,250	1,350	1,335	2,685
Actuarial gain	1,794	967	2,761	3,300	2,024	5,324
Employer's contributions	1,540	730	2,270	1,898	388	2,286
Members' contributions	15	4	19	130	64	194
Effect of settlements	-	-	-	(743)	(904)	(1,647)
Benefits paid	(426)	(888)	(1,314)	(920)	(1,704)	(2,624)
Market value of assets at the end of the year	33,442	24,302	57,744	28,677	22,081	50,758

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at 31 December 2010

26. Pensions (continued)

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

	BMS Associates 2010 £000	BMS Harris & Dixon 2010 £000	Total 2010 £000	BMS Associates 2009 £000	BMS Harris & Dixon 2009 £000	Total 2009 £000
Value of liabilities at the beginning of the year	34,214	24,252	58,466	28,607	23,849	52,456
Current service cost	19	18	37	163	255	418
Interest cost on Scheme liabilities	1,990	1,399	3,389	1,684	1,358	3,042
Members' contributions	15	4	19	130	64	194
Effect of settlements	-	-	-	(687)	(964)	(1,651)
Effect of curtailments	-	-	-	179	(563)	(384)
Past service cost	-	205	205	-	132	132
Benefits paid	(426)	(888)	(1,314)	(920)	(1,704)	(2,624)
Actuarial losses	714	1,200	1,914	5,058	1,825	6,883
Market value of liabilities at the end of the year	36,526	26,190	62,716	34,214	24,252	58,466

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 2010 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.

Amounts charged to operating profit:

	BMS Associates £000	2010 BMS Harris & Dixon £000	Total £000	BMS Associates £000	2009 BMS Harris & Dixon £000	Total £000
Current service cost	19	18	37	163	255	418
Past service cost	-	205	205	-	132	132
Curtailment loss/(gain)	-	-	-	179	(563)	(384)
Settlement loss/(gain)	-	-	-	56	(60)	(4)
Total operating charge	19	223	242	398	(236)	162

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

	BMS Associates £000	2010 BMS Harris & Dixon £000	Total £000	BMS Associates £000	2009 BMS Harris & Dixon £000	Total £000
Interest cost	(1,990)	(1,399)	(3,389)	(1,684)	(1,358)	(3,042)
Expected return on pension scheme assets	1,842	1,408	3,250	1,350	1,335	2,685
Total	(148)	9	(139)	(334)	(23)	(357)

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at 31 December 2010

26. Pensions (continued)

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
	2010	2010	2010	2009	2009	2009
	£000	£000	£000	£000	£000	£000
Actuarial gains/(losses)	1,080	(233)	847	(1,758)	199	(1,559)
Total gains/(loss) recognised in the STRGL	1,080	(233)	847	(1,758)	199	(1,559)

History of Scheme Assets, Liabilities, Experience Gains and Losses

	2010	2009	2008	2007	2006
BMS Associates	£000	£000	£000	£000	£000
Market value of Scheme assets	33,442	28,677	23,662	24,914	22,084
Value of Scheme liabilities	36,526	34,214	28,607	33,009	29,424
Deficit in the Scheme	(3,084)	(5,537)	(4,945)	(8,095)	(7,340)

Experience (losses)/gains:

Arising on Scheme liabilities	229	(656)	405	(458)	(469)
% of Scheme liabilities	0.63	(1.92)	1.42	1.39	(1.59)

Experience gains/(losses)

Arising on Scheme assets	1,794	3,300	(4,174)	611	268
% of Scheme assets	5.36	11.51	(17.64)	2.45	1.21

	2010	2009	2008	2007	2006
BMS Harris & Dixon	£000	£000	£000	£000	£000
Market value of Scheme assets	24,302	22,081	20,878	24,025	23,441
Value of Scheme liabilities	26,190	24,252	23,849	24,253	23,015
(Deficit)/surplus in the Scheme	(1,888)	(2,171)	(2,971)	(228)	426

Experience gains/(losses):

Arising on Scheme liabilities	326	883	(1,434)	(298)	571
% of Scheme liabilities	1.24	3.64	(6.01)	(1.23)	2.48

Experience gains/(losses)

Arising on Scheme assets	967	2,024	(4,195)	(485)	387
% of Scheme assets	3.98	9.17	(20.09)	(2.02)	1.65

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26. Pensions (continued)

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

	BMS Associates £000	2010 BMS Harris & Dixon £000	Total £000	BMS Associates £000	2009 BMS Harris & Dixon £000	Total £000
Deficit in Scheme at beginning of the year*	(5,537)	(2,171)	(7,708)	(4,945)	(2,971)	(7,916)
Movement in year:						
Current service cost	(19)	(18)	(37)	(163)	(255)	(418)
Net interest (cost)/return on assets	(148)	9	(139)	(334)	(23)	(357)
Contributions	1,540	730	2,270	1,898	388	2,286
Past service cost	-	(205)	(205)	-	(132)	(132)
Actuarial gain/(loss)	1,080	(233)	847	(1,758)	199	(1,559)
Settlement (loss)/gain	-	-	-	(56)	60	4
Curtailment (loss)/gain	-	-	-	(179)	563	384
Deficit in scheme at the end of the year*	(3,084)	(1,888)	(4,972)	(5,537)	(2,171)	(7,708)

*Amounts are stated gross of deferred tax.

27. Underlying EBITDA

	2010 £000	2009 £000
EBITDA	2,944	2,218
Unrealised foreign exchange (gains)/losses	(598)	1,468
Share based payments charge	1,202	690
Investment in new recruits	1,465	-
Expenditure on asset held for resale	257	724
Exceptional legal fees	-	450
Rebranding	460	-
Restructuring of business unit	508	-
Establishment costs of underwriting platform	868	-
	7,106	5,550

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

	2010 £000	2009 £000
Operating profit	1,308	461
Depreciation	1,502	1,506
Amortisation and write off of goodwill	141	141
Amortisation of debentures	36	18
Share-based payment charge	1,202	690
Net decrease in provision for liabilities and charges	(243)	(350)
(Increase)/decrease in non insurance debtors	(317)	2,256
Decrease in non insurance creditors	(1,477)	(3,831)
Increase in insurance net assets	(263)	(1,500)
Decrease in pension provision	(1,888)	(1,767)
Unrealised foreign exchange (gain)/loss	(598)	1,468
Net cash outflow from operating activities	(597)	(908)

29. Analysis of net funds year ended 31 December 2010

	2009 £000	Cash flow £000	2010 £000
Cash at bank and in hand	8,039	(1,585)	6,454
Bank loans	(1,470)	621	(849)
Net funds	6,569	(964)	5,605

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

	2010 £000	2009 £000
Decrease in cash in the year	(1,585)	(2,760)
Cash flow from financing	621	574
Change in net funds	(964)	(2,186)
Net funds at 1 January	6,569	8,755
Net funds at 31 December	5,605	6,569

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31. Analysis of the balances of net cash

Group

	2010 £000	2009 £000	Change in year £000
Insurance cash at bank and in hand	43,170	34,054	9,116
Other cash at bank and in hand	6,454	8,039	(1,585)
	49,624	42,093	7,531

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

There have been no significant post balance sheet events.

UK

One America Square
London EC3N 2LS
United Kingdom
T: +44 (0)20 7480 7288

Bermuda

Windsor Place
18 Queen Street
Hamilton HM 11
Bermuda
T: +1 (441) 292 0021

Canada

#206-1111
Lonsdale Avenue
North Vancouver
British Columbia V7M 2H4
Canada
T: +1 (604) 990 8882

USA

18-4 East Dundee Road
Suite 104
Barrington IL 60010
USA
T: +1 (847) 277 0201

190 Highway #18
Suite 305
East Brunswick NJ 08816
USA
T: +1 (203) 225 7303

7650 Edinborough Way
Edina MN 55435-6003
USA
T: +1 (952) 224 0200

1500 JFK Boulevard
Suite 1510
Philadelphia PA 19102
USA

120 E. Lake Street
Suite #311
Sandpoint ID 83864
USA
T: +1 (877) 544 4399

127 Broadway
Suite #210
Santa Monica CA 90401
USA
T: +1 (877) 544 4399

2 Trap Falls Road
Suite 506
Shelton CT 06484
USA
T: +1 (203) 929 6200