Company Number: 3943048

Financial Services Compensation Scheme Limited

Annual Report and Accounts 2011/12

Registered Office:
Financial Services Compensation Scheme Limited
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15 St Botolph Street
London
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The full Annual Report and Accounts can be found at www.fscs.org.uk

Financial Services Compensation Scheme

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Annual Report and Accounts 2011/12

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Our Role, Mission and Aims

Our role

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it.

FSCS is a non-profit-making independent body, created under the Financial Services and Markets Act 2000 (FSMA).

It is funded by levies on authorised financial services firms.

FSCS does not charge individual consumers for using its service.

Our mission

Our mission is to provide a responsive, well-understood and efficient compensation scheme for financial services, which raises public confidence in the industry.

Our aims

In taking forward our mission we aim to:

- respond quickly, efficiently and accurately to consumer claims for compensation;
- raise public awareness of the protection provided by FSCS;
- ensure that FSCS operates as cost-efficiently as possible and maximises recoveries from the estates of failed providers and third parties;
- be ready to respond to defaults in the financial services industry to protect consumers and financial stability; and
- enhance the capability of FSCS by enabling the people who work for us to develop their skills, knowledge and professionalism.

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The Year in Summary

This summary gives a snapshot of FSCS's performance during 2011/12. Click on the headings to go to the relevant section of the report.

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Claims received and handled

FSCS received 96,930 new claims in 2011/12, compared with 39,499 in 2010/11, an increase of 145 per cent. This included a large rise in Payment Protection Insurance (PPI) claims, with more than 67,000 related to one firm, Welcome Financial Services Limited (Welcome) – see panel opposite. We completed 86,086 claims, compared with 47,055 in 2010/11, a rise of 83 per cent.

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Compensation paid

FSCS paid out £347m in compensation in 2011/12, down from £535m in 2010/11. This reflects a fall in the number of higher value claims related to the major banking failures of 2008/09 and investment intermediation defaults.

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FSCS running costs

FSCS's running costs for the year were £57.2m, excluding the cost of processing Welcome claims, which do not fall to the industry, and the major banking defaults of 2008/09. Like-for-like costs have reduced, but the overall management expenses have increased due to the cost of pursuing recoveries and new activities undertaken by FSCS.

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Recoveries made

In 2011/12, we recovered £759m from the estates of failed firms, compared with £756m in 2010/11. This includes £673m in recoveries from the major banking failures of 2008/09, £30m in recoveries relating to Keydata and £49m in recoveries from Welcome.

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Enquiries handled

We handled 417,436 enquiries, up from 167,600 in 2010/11, the majority related to Welcome.

We received almost

97,000

new claims

58

Enhancing our capability, being ready to respond

FSCS upgraded its claims management IT system to make it more flexible and resilient. We also began to streamline our claims-handling processes to make them faster, more efficient and cost-effective across all claim types.

We introduced a new People Strategy to build a high-performance culture focused on recruiting highly skilled people, using more robust performance management and greater recognition and reward for good performance.

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Our governance

FSCS Chairman David Hall retired on 31 March 2012 and was succeeded on 1 April by Lawrence Churchill, who is also Chairman of the National Employment Savings Trust. Read a

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Raising awareness of FSCS

We are planning a new phase of our consumer awareness programme. Awareness of the protection offered by FSCS helps to build consumer confidence. This phase will target consumers at the point when they are considering or buying financial products. Measures include stickers and posters in bank and building society branches.

Reporting of Welcome-related claims

More than two-thirds of all new claims received in 2011/12 related to one firm, Welcome, which was declared in default in March 2011 having mis-sold a large volume of PPI policies

However, an innovative restructuring arrangement meant that the costs of compensating claimants and processing claims were met by Welcome at no cost to the industry The firm also acted as claims-handling agent on behalf of FSCS under our direction and control

For these reasons, Welcome claims are treated as a separate category in this report Where appropriate, figures are stated for Welcome claims and non-Welcome claims This helps to clarify which compensation costs fall on the levy payer and gives a clearer picture of underlying claims trends

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Chairman's Statement

Outgoing Chairman David Hall looks at how FSCS has responded to changing demands and how it can meet the challenges of the future.

When I joined FSCS in 2006, the organisation had paid out in its first five years less than £1bn in compensation to a relatively small number of consumers More than half of that compensation related to insurance claims on failed providers

Just over a year into the role, the run on Northern Rock happened And then, a year later, FSCS was called upon to deal with the bank failures of 2008/09

Throughout this time, our focus has been on providing the best possible compensation service to consumers while enhancing efficiency to reduce costs for the industry, which funds FSCS

Facing new demands

We have now paid more than 4 5m consumers over £26bn in compensation Like the industry, we have faced new demands and responded to them FSCS has used the experience of dealing with a range of failures to improve and streamline its processes in order to provide a better service to consumers We have raised consumer awareness of the protection we offer and improved our communication with levy payers

All of these changes have underlined for me the importance to financial stability of an efficient and effective compensation scheme As I step down as Chairman, I can also see clearly what is necessary to provide such a scheme now and in the future

The first requirement is independence To retain the confidence of both consumers and the industry, FSCS must be able to exercise its own judgement, within the rules, about when compensation is due and then to raise levies to meet compensation costs To satisfy all sides that its decisions really are independent, FSCS must also run its own affairs under the overall

"

The changes FSCS has put in place mean the organisation is well equipped to face future challenges

FSCS has paid out a total of more than **£26bn** in compensation

strategic direction of its Board I hope (and expect), as the regulatory environment is reformed, the Government and regulatory agencies will fully respect the independence which is essential to FSCS's credibility and ability to do its job

A second prerequisite is public awareness of the protection provided by FSCS However efficient and effective, FSCS's contribution to financial stability will be impaired if a significant proportion of the public does not know of our protection and so gains no reassurance from it The queues outside Northern Rock branches in 2007 were testimony to this As I leave, this is unfinished business Further progress on this front will depend on the active co-operation of the industry We need to ensure that consumers receive good, clear, punchy information about FSCS's protection when it matters to them, above all when they are considering buying financial products

Protecting consumers

Third, FSCS must be fully integrated into the resolution arrangements for future financial failures It is critical to a well-functioning financial services industry that firms can fail without undermining financial stability But firms can only fail in an orderly way if consumers can be protected That is where FSCS comes in and FSCS needs to be at the table alongside government and the regulators when firms get into difficulty and failure is a possibility Only then can the practicalities and challenges of compensating consumers be fully taken into account when resolution plans are laid We already work closely with the authorities and I would also like to see FSCS undertake more frequent exercises with its partners to test the adequacy of our contingency plans and decision-making

Fourth, FSCS must retain the support of the industry which funds it During my time as Chairman, FSCS has had a constructive relationship with all parts of the industry which recognises the part played by FSCS in bolstering confidence in financial products FSCS cannot, however, take that support for granted In particular, we must ensure that, consistent with meeting our obligations to consumers, we keep our costs to a minimum by operating efficiently and by maximising the recoveries we achieve Above all, firms must accept our funding arrangements as fair As things stand, too many do not I therefore welcome the review which the Financial Services

Authority (FSA) has initiated and look to the review to propose future funding arrangements that command wider support

Finally, FSCS must continue to invest in its infrastructure and people so that it can meet future challenges as effectively as it met those in 2008 Those investments are already well in hand

FSCS's IT systems have been upgraded This has improved our claims management, making it easier to process large numbers of claims quickly and thereby enhancing consumers' experience of claiming compensation and at lesser cost to the levy payers

FSCS is now able to pay compensation more quickly and efficiently when deposit failures occur When Southsea Mortgage and Investment Company Limited failed earlier this year, most customers were sent compensation the day after the company failed This was the first bank to test the faster payout system and bank liquidation rules This was possible thanks to the investment the industry made to create single customer view files, as well as the investments we have made in our systems

Increasing professionalism

FSCS's people are even more important to its success So I strongly support the strides that have been made during my time as Chairman to deepen the professionalism of the organisation What has remained a constant throughout has been the commitment and hard work of FSCS's people In that respect, 2011/12 has been a typically busy 12 months, full of challenges, and I would like to thank our people for their hard work in what has been a demanding year

The changes FSCS has put in place mean that the organisation is well equipped to face future challenges and fulfil its role in the Government's proposed new regulatory framework I have greatly enjoyed my time as Chairman of FSCS and the organisation should be proud of what it has achieved The organisation has gone from strength to strength, and I know I am leaving it in good hands as I pass the baton to Lawrence Churchill, whose skills and vast knowledge of financial services will be of great benefit to FSCS

“

FSCS is now able to pay compensation more quickly and efficiently when deposit failures occur

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Chief Executive's Report

Chief Executive Mark Neale reviews the events of the year and discusses the issues they have raised for FSCS and the industry.

FSCS is a unique organisation, there is no other country in the world that has one compensation scheme protecting consumers across such a breadth of financial services FSCS provides a single port of call for consumer protection when authorised financial services firms fail We play a powerful role in helping to underpin the consumer confidence that supports financial stability and benefits the industry We know from research that the existence of FSCS encourages and reassures customers of financial services This protection is funded by the industry

Delivering compensation in the UK is highly challenging as a result of this broad remit We face unpredictable fluctuations in the volumes, mix and complexity of claims FSCS is also seeing an increase in the number of complex failures We completed over 86,000 claims this year spanning a spectrum of issues across the sector These included claims relating to Payment Protection Insurance (PPI), to credit union failures and to the insolvency of investment businesses including Keydata, MF Global and CF Arch Cru We paid out just under £350m in compensation

Responding to change

We are able to respond efficiently and effectively to the unpredictability of our workload by outsourcing the processing of the great majority of claims we receive This business model, which enables us to scale up or down rapidly in response to demand while maintaining service standards, is enabled by our highly professional people and by our continuing investment in supporting infrastructure

Complexity does not just present operational challenges for FSCS, it also goes to the heart of FSCS's ability to protect consumers We rightly expect consumers to take responsibility for their saving and investment choices and

> “
> **We are seeing an increase in the number of complex failures**

> “
>
> **We are working with the industry to build awareness of FSCS when it matters most**

to understand the risks associated with those products That is why we do not compensate for ordinary investment risk

But the complexity of many products on the market is making it hard for consumers to understand the risks they are running This is a key concern for FSCS, because we cannot protect consumers against the materialisation of risks they have been told about, but not fully grasped I therefore welcome the debate now under way about improving financial education and the marketing of simpler products with transparent risks

We also see costs to consumers from the activities of claims management companies (CMCs) Almost half the new claims (excluding Welcome[1]) that came into FSCS in 2011/12 related to PPI and more than 70 per cent of those were made through CMCs Typically, and often for little added value, some CMCs keep a significant slice of the compensation paid A consumer has to provide the same information to a CMC as they do direct to FSCS There is almost no difference in the success rates of claims which are made direct by consumers or by CMCs on their behalf But FSCS's service is free, whereas CMCs charge up to 25 per cent of the compensation awarded That is over £1,000 on an average PPI claim

Informing consumers

We fully accept that there is an obligation on FSCS to inform consumers better about the protection we provide This will not only give consumers the confidence to deal directly with FSCS, but also help to reassure people about the safety of financial products Research has shown that consumers who are aware of FSCS are more confident and more likely to buy financial services

Over the past year, FSCS has, therefore, continued to engage with its stakeholders to raise awareness of FSCS Much more still needs to be done An independent mystery shopping exercise revealed that, although some financial services firms are improving the way in which they communicate information about FSCS to their customers, there is still huge room for improvement Consumers are only given accurate information about FSCS half of the time That is not good enough

Working with stakeholders

To help firms improve this, we are working closely with our industry stakeholders to communicate awareness of FSCS when it matters most, at the point of sale We welcome in this context the Financial Services Authority's (FSA's) recent consultation on the display in bank and building society branches and on websites of more prominent information about FSCS And we are working with the Financial Skills Partnership to produce a new e-learning module for the staff of financial services firms There is more information on our consumer awareness programme in Section 5

Just as we seek to provide a responsive service to consumers, so we also aim to minimise the costs of our service to the industry that funds us

1 Claims relating to Welcome Financial Services Limited were dealt with directly by Welcome s claims handlers following an innovative scheme of arrangement agreed with FSCS FSCS remains responsible for the payment of claims

Our outsourced business model makes a major contribution in this respect We also seek to innovate in order to drive down costs For example, we have continued with the ground-breaking arrangement we agreed with Welcome Financial Services Limited for mis-sold PPI claims The agreement, reached between FSCS and Welcome's creditors, means that Welcome acts as the claims-handling agent on behalf of FSCS and provides payments to FSCS to fund compensation costs for eligible PPI claims In 2011/12 this arrangement has saved the levy payer more than £41m FSCS remains responsible for the process and has been closely monitoring the handling of all 55,000 decisions that were made in 2011/12 These claims have been turned round in half the time of typical PPI claims with no additional cost to the financial services industry

We also seek to reduce costs to the industry by actively pursuing recoveries from the estates of failed businesses or from third parties who shared responsibility for consumers' losses (see Section 6) Most notable recoveries from 2011/12 relate to the investment sector, where £30m has been recovered in relation to Keydata, a particularly complex default, and the major bank failures of 2008/09, where over £670m has been recovered We return these recoveries to the industry once the cost of achieving them has been deducted

Sustainable funding

Finally, I know the FSA's review of FSCS's funding model is something which greatly interests the industry and we encourage firms to participate in the review It is critical that the FSA develops a funding model for FSCS that meets the demand for compensation and is sustainable If FSCS is to be in a position to continue protecting consumers we must also retain the support of the industry However, this is a zero-sum game We must have access to the money we need to pay claims as they fall due and, while there may be better and fairer ways of sharing those costs over time or pooling them across the industry, we cannot conjure them away

The rising volume of claims, the unpredictable nature of our work and a healthy debate about the funding of FSCS protection are likely to continue in 2012/13 We will continue to work with the FSA and, in the future, our new regulatory partners at the Prudential Regulation Authority and the Financial Conduct Authority on these issues, and we are always willing to engage with the firms that fund us Against the backdrop of all this change and challenge, FSCS will continue to focus on providing the best possible service to consumers and the industry

In doing so, we will, I know, continue to draw on the commitment and professionalism of FSCS's people who have delivered everything you will read about in this report

Key points

- In 2011/12 FSCS received almost 97,000 new claims, an increase of 145 per cent on the number of claims received in 2010/11.
- These included more than 67,000 Welcome PPI claims, more than 13,000 other PPI claims and almost 16,000 claims for products other than PPI.
- 86,000 claims were completed, 83 per cent more than the number completed in 2010/11.
- We successfully carried out payment within seven days for claims relating to failed deposit takers.

4

Responding to Consumers

In 2011/12, we dealt with a large rise in the number of new claims and customer enquiries, while working to improve our capacity to make faster payouts to consumers. The majority of claims we dealt with this year related to Payment Protection Insurance (PPI).

A summary of claims and enquiries

FSCS received 96,930 new claims in 2011/12, more than double the number received in 2010/11 Claims relating to PPI accounted for the majority of the total, 67,696 new claims were against one firm, Welcome Financial Services Limited[2] (Welcome) The total number of claims completed during the year was 86,086

The table on page 18 gives a detailed breakdown of claims received, decisions made and the average amount of compensation paid per claimant by industry sector It shows that the average payment made fell overall from more than £6,600 to less than £4,400 This is because the majority of payments were for PPI claims, which were of relatively low value compared with the Investment Intermediation claims that predominated last year Further information on compensation can be found in Section 6

FSCS received more than double the number of telephone calls than in 2010/11 We were very close to responding to all calls within our service standards, answering 79 per cent of calls from consumers within 20 seconds despite increased call volumes More than half the calls received in 2011/12 related to Welcome

86,086
claims were completed this year

2 Claims relating to Welcome Financial Services Limited were dealt with directly by Welcome's claims handlers following an innovative scheme of arrangement agreed with FSCS FSCS remains responsible for the payment of claims

Claims, decisions and average payments by class/sub-class

		New claims received		Total decisions		Uphold rate		Average paid	
		2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Deposit (SA01)		3,527	3,231	4,984	3,127	100%	97%	£12,279	£551
General Insurance Int. (SB02)	All (excluding Welcome)	13,801	8,102	12,792	7,875	82%	86%	£4,297	£5,219
	Welcome[1]	67,696	N/A	55,000	N/A	95%	N/A	£1,828	N/A
Life and Pensions Provision (SC01)		3	2	2	2	50%	0 0%	£1,590	£0
Life and Pensions Intermediation (SC02)		3,767	4,180	3,890	3,573	50%	52%	£10,086	£8,511
Investment Fund Management (SD01)		46	24	53	21	13%	43%	£12,605	£7,962
Investment Intermediation (SD02)		6,899	23,603	8,342	32,196	81%	90%	£16,467	£9,910
Home Finance Intermediation (SE02)		1,191	357	1,023	261	5%	23%	£6,401	£4,949
Total		**96,930**	**39,499**	**86,086**	**47,055**	**N/A**	**N/A**	**£4,362[2]**	**£6,640**
General Insurance Provision (SB01)		7,194	5,179	9,000	10,400	£5,923	See note[3]	£6,667	£6,667
Home Finance Provision (SE01)		None							

Notes

1 Due to the restructuring arrangement put in place for Welcome Financial Services Limited, although FSCS has arranged for claims to be handled, the cost for these claims will not fall on levy payers

2 The average individual compensation payment was less than last year This is because the volume of higher value Investment Intermediation claims fell, while there was a significant rise in the volume of lower value PPI claims

3 The nature of insurance protection makes it difficult to calculate an uphold rate consistent with other classes

What is driving claims?

Claims relating to mis-selling of PPI accounted for a large majority of the number of new claims received by FSCS at 81,005 of the 96,930 new claims received

The majority of these PPI claims related to Welcome, which significantly impacted on FSCS's work in 2011/12 FSCS remains responsible for these claims but, following an innovative arrangement, claims and calls are being handled by Welcome

Claims excluding Welcome

Excluding claims connected to Welcome, FSCS received 29,234 new claims from consumers during 2011/12, 26 per cent less than during 2010/11 A total of 31,086 of non-Welcome claims were decided, which was a third less than last year

The decrease in claims volumes is partly because of a levelling off of claims against investment firms, such as Keydata, which accounted for 60 per cent of new claims in 2010/11

Claims made against firms in the Investment Intermediation sub-class still accounted for 24 per cent of claims, but were down from their peak in 2010/11

The majority of these claims related to Keydata Investment Services Limited, Wills & Co Stockbrokers and MF Global More information on the cost of these failures is available in Section 6 Continuing claims for mortgage endowments (part of the Life and Pensions Intermediation sub-class) made up 9 per cent of new claims, a slightly higher percentage than in the previous year although the volume of claims was less

Other significant areas included stockbroking and mortgage advice, which made up 7 per cent and 4 per cent of the new claims total respectively

Large rise in PPI claims (excluding Welcome)

The year saw a big rise in claims related to PPI to 13,309 or almost 45 per cent of all new claims received. However, by the year-end we had completed a total of 12,570 claims, the majority within our target time scales.

This result was partly due to a re-engineered process for handling new claims, designed to minimise delays. Previously, processing time had to be extended because application forms were not sufficiently complete or additional data needed to be gathered to assess claims.

The new system has addressed this by simplifying the questions on the claim form and by providing clearer guidance on the exact information required. The result is that 86 per cent of claims are now completed within three months of receipt of a completed application form, as compared with the previous target of six months.

Nearly three-quarters of total PPI claims came from CMCs which continue to be active in this area. Whether a claim is received via a CMC or an individual is irrelevant to the outcome as we assess all claims on an individual basis and on the available evidence.

Case study
Mr Keith Libby – PPI claimant

In 2006, retired businessman Mr Keith Libby took out a loan for a company he co-owned Searching online, Mr Libby opted to use Loanmakers Limited, which subsequently went into default He did not intentionally opt for PPI cover and said

"There wasn't any mention of the loan including PPI online, but when I received the breakdown of the loan I realised I had been charged for PPI When I queried the inclusion of PPI, I was told I couldn't have the loan without it."

Through a turn of unfortunate events, Mr Libby became unemployed and tried to make a claim under the PPI he had purchased Much to Mr Libby's shock, he learnt that he wasn't eligible to claim through the insurance as he had previously been self-employed In an attempt to retrieve the money he had spent on the mis-sold and ineffective insurance, Mr Libby contacted various PPI claims management companies (CMCs) To his dismay, they all wanted at least 30 per cent of any payment Mr Libby decided he was not happy to pay away the money owed to him, and after seeking legal advice, he went directly to FSCS

Mr Libby said "When I realised that an organisation existed to protect me, I was extremely relieved I had begun to despair after being mis-sold insurance I couldn't claim and only finding companies willing to help me for a fee, but FSCS's staff were very reassuring

"I felt at ease dealing with FSCS and it finally felt like I had recovered something out of what had been a horrific time in my life It is essential that everyone is aware of FSCS and the protection it provides I am very grateful that FSCS was able to compensate me"

Faster payouts

The year 2011/12 was the first in which all the deposit failures were paid under the new faster payout regime There were seven credit union failures in the year and one bank failed The majority of claimants for all the failures were paid well within seven days

Central to this performance was our work to enable faster payouts, including the requirement to pay most customers of failed deposit takers within seven days of default. We continued to work with firms to ensure they can provide a 'single customer view' of customer accounts as required by Financial Services Authority (FSA) rules

FSCS is also working on an electronic payout system to improve further the speed and efficiency of the service FSCS provides Customers of failed banks and building societies will be able to log on to a website which will give them instructions on payout, including the option of payment directly into an account with another provider FSCS has worked on the solution with external partners The system will be capable of paying millions of consumers and will be highly secure The new system will increase our capacity to respond to failures

95%

of Southsea customers received compensation within a day of failure

Southsea Mortgage and Investment Company Limited bank customers paid within a day of failure

Working with the liquidators of Southsea Mortgage and Investment Company Limited, FSCS accessed the single customer view files and sent more than 200 people close to £7m compensation within one day of the bank's failure.

This represented more than 95 per cent of the bank's customers and demonstrates FSCS's commitment to respond quickly and efficiently in the event of a banking or building society default.

This turnaround time was well within our target of seven days for the majority of claims, and 20 days for more complex deposit claims, which came into effect in January 2011. Dealing with this failure was a significant test of our new payment processes, which need to be robust to deal with much larger failures.

Case study

Mr Simon Piggott – investment claimant

Retired textile consultant Mr Simon Piggott first invested with Mansion House Securities in 2007, because he thought it sounded like a good investment. He said

"I contacted Mansion House Securities to get a free report on Barclays Bank It was from there the brokers explained more about their company and products It sounded like a reasonable outfit, especially as I didn't have any shares in higher risk investments at the time In October 2009 I looked on the company's website and saw that it had gone into administration I was devastated as I sincerely thought I had lost all of what I had invested"

Mr Piggott was aware of FSCS's services and wasted no time in getting in touch to make an investment claim

Mr Piggott was approached by a claims management company which wanted to handle his claim with FSCS for a 7 per cent fee He was informed it would take around two months to settle the claim Mr Piggott decided against using one of these companies, saying

"FSCS announced on their website that anyone who had had any dealings with Mansion House should get in touch, which was very encouraging I decided to go ahead and deal directly with FSCS and was glad I did as all I had to do was complete the application form and return it to FSCS My claim was then settled in under a month with no handling fees

"FSCS is a brilliant safety net for your finances I'm very happy with the outcome, especially as it has restored me back to the financial position I was in prior to the investment FSCS's impeccable service has also restored my faith in the financial industry"

Consumer enquiries and complaints

FSCS provides extensive protection for consumers across the breadth of financial sectors As a result, we receive an extremely varied range of telephone, email and written enquiries from consumers, including potential claims and general enquiries about all aspects of our work Alongside this, FSCS deals with any complaints it receives, as well as responding to parliamentary correspondence

Rise in Welcome-related enquiries

During 2011/12, we dealt with 417,436 enquiries, more than double the number received the previous year This included almost 279,637 telephone enquiries and 137,799 written enquiries The huge increase is mainly due to enquiries about Welcome

Excluding the enquiries relating to Welcome, the overall volume of enquiries we received fell from 167,600 in 2010/11 to 165,320 in 2011/12 This figure includes a rise in PPI mis-selling enquiries and a significant number of customers of banks or building societies contacting FSCS in error This occurred because a number of deposit taking firms did not include their own telephone number when writing to their customers to provide them with information about FSCS Customers of these firms therefore contacted FSCS when they were trying to reach their own bank or building society

Complaints rate falls

The complaints rate – complaints as a proportion of claims handled – fell in 2011/12 Compared with the number of decisions made, only 1 per cent were complained about

Of the total 974 complaints received, 426 complaints (44 per cent) related to Welcome Excluding Welcome, total complaints remained the same as in 2010/11 at 548 Less than 7 per cent of complaints resulted in a change to the original decision and in many of those cases the change was because of the submission of new information by the complainant.

All complaints are investigated by FSCS If consumers are unhappy with the outcome of this investigation, their complaint may be escalated internally, ultimately to executive director level However, if a consumer is still dissatisfied following this review process and the complaint relates to the handling of their claim, they may ask FSCS to refer their complaint externally to the Independent Investigator

Consumer enquiries

Contact type			Volume received 2011/12	Volume received 2010/11
Telephone calls	Business as usual (BAU)		125,225	120,672
	Welcome		154,412	N/A
Total telephone calls			**279,637**	**120,672**
Written correspondence	Emails and general letters	BAU	39,987	46,470
		Welcome	97,702	N/A
	Parliamentary correspondence	BAU	108	229
		Welcome	2	N/A
Total written correspondence			**137,799**	**46,928**

Complaints

			Volume received 2011/12	Volume received 2010/11
Complaints	About the claim decision	BAU	452	479
		Welcome	196	N/A
	About the handling of the claim	BAU	96	69
		Welcome	230	N/A
Total complaints			**974**	**548**

Report from the Independent Investigator

The Independent Investigator reviews complaints about claims that remain unresolved following investigation and response by FSCS No such complaints were referred to the Independent Investigator in 2011/12

This is my fourth annual report since I took up office, and it relates to the period from 1 April 2011 to 31 March 2012

My role is to review how FSCS deals with claims This review relates to how a claim has been dealt with by FSCS having regard to its administrative and procedural aspects

I do not investigate disagreements or disputes about the merits of a decision made on a claim itself This is made very clear to claimants who ask for a complaint to be referred to me Notwithstanding this, some of the complaints referred to me previously at a complainant's request have sought to raise issues about the decision made on a claim to FSCS I make it clear to complainants that I will not adjudicate on such matters

Having investigated a complaint, I provide a written report to the FSCS Board, giving my findings Where I consider it appropriate, arising out of the investigation of a complaint, I bring to the Board's attention broader issues that the Board may wish to consider

A copy of my report is provided to the complainant and to the Board in every case I adjudicate upon

I investigate complaints following review of the complaint by FSCS under its internal complaints procedures

In this reporting period, I investigated and reported on no cases This compares to three cases referred to me for adjudication last year, and nine in the year previous to that There are currently no complaints under investigation by me

I note that FSCS dealt with more than 86,000 claims in this reporting period I am satisfied that it is correctly signposting complainants to me should they be dissatisfied with how their claim has been dealt with No complainants have found the need to refer any such dispute to me for adjudication in this reporting period I consider this should give the FSCS Board a high degree of reassurance

John Hanlon

Independent Investigator

How we performed against our service standards

We were very close to meeting the main service level targets we published in our Plan and Budget for 2011/12.

Target:
to answer 80 per cent of all telephone calls within 20 seconds.

Performance:
over the course of the year, just over 79 per cent of telephone calls were answered within 20 seconds.

Target:
to answer 90 per cent of all MPs' letters, stage 1 complaints and written enquiries within 10 working days and to respond to 90 per cent of stage 2 and 3 complaints within 15 working days.

Performance:
during 2011/12 we came close to meeting the first of these targets, responding to 89 per cent of MPs' letters, stage 1 complaints and written enquiries within 10 working days. However, we failed to meet the second, by responding to 68 per cent of stage 2 and 3 complaints within 15 working days.

Target:
to issue compensation payments within 10 working days of written acceptance of the offer, or on receipt of all necessary information from third parties for claims relating to pension reinstatement and pension loss.

Performance:
compensation was paid within 10 working days from the relevant date in all cases where an offer was made.

Target:
to pay compensation within seven days of default to a majority of deposit takers' customers whose firms were declared in default after 31 December 2010; and to the remaining customers with more complex accounts within 20 working days.

Performance:
all customers within the automated ('straight through') process were paid within seven days of default, with most being paid within three days. Where we have been able to contact the claimants, we paid all complex claims within 20 working days.

Target:
to complete 90 per cent of non-deposit related claims within six months of receipt of a claim.

Performance:
just over 88 per cent of claims were completed within six months of receipt of a claim, of which more than two-thirds were completed within three months.

We handled
417,436
enquiries

Understanding our work

FSCS is the UK's statutory fund of last resort for customers of financial services firms We are a non-profit-making independent body, accountable to the FSA The rules under which we operate are outlined in more detail in the FSA's handbook

Our role

Our role is to protect UK consumers against financial loss from firms regulated by the FSA (or its predecessors) who are in default This means they are unable, or are likely to be unable, to pay claims against them

We do this by providing an effective and efficient compensation scheme to eligible consumers We do not charge individual consumers for using our service and consumers do not need to use a CMC to apply for compensation FSCS is funded by the industry

We only pay compensation for financial loss and there are limits to the amount of compensation we can pay The table opposite shows the kinds of losses and products we cover and the compensation limits – you can also follow these links to find out more

Links

When is FSCS cover triggered?

What products does FSCS cover?

Compensation limits

What FSCS protects and compensation limits

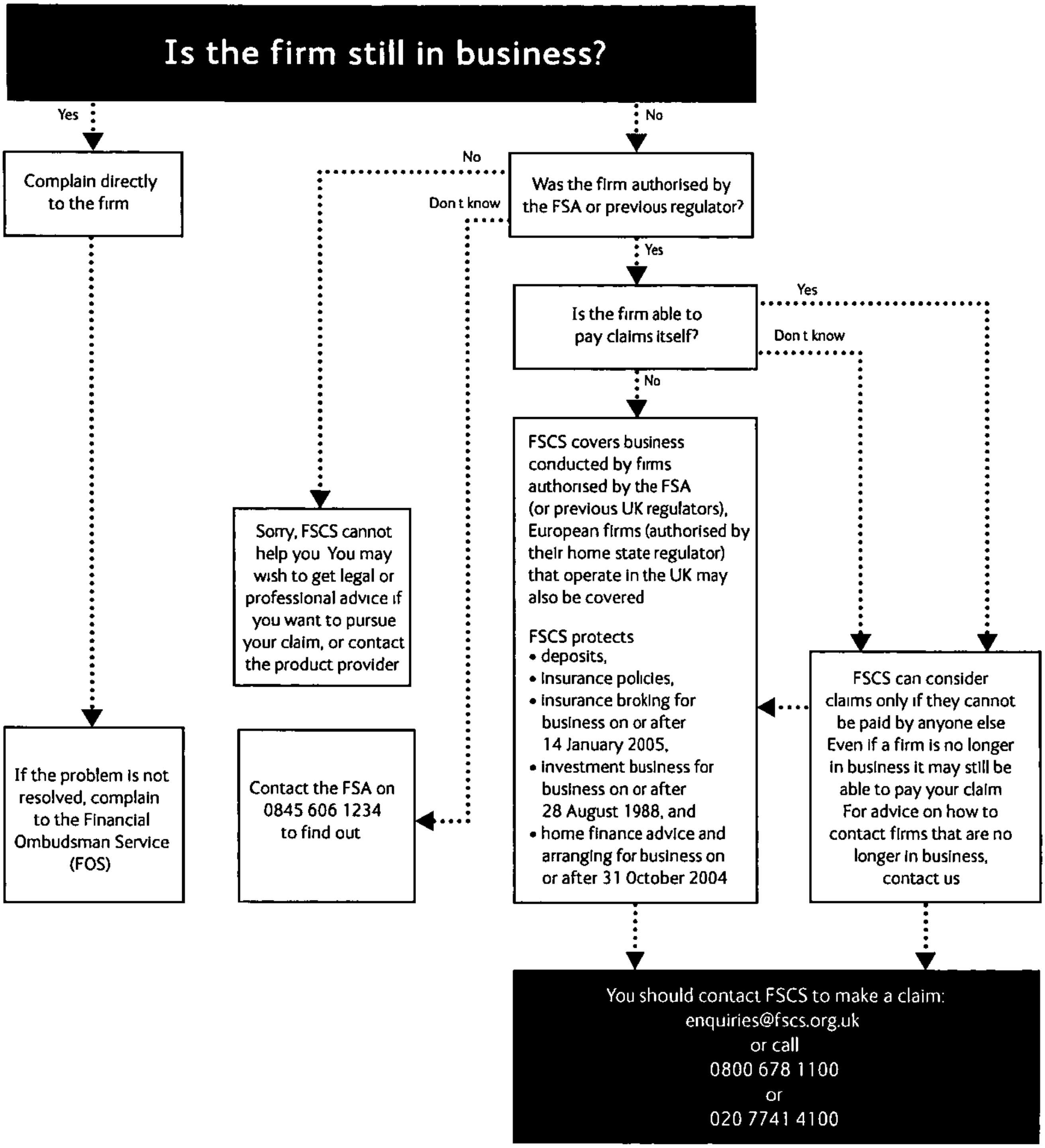
Industry sector or class	What we protect	Compensation limits
Deposit	Consumers' deposits in banks, building societies and credit unions	The maximum level of compensation for claims against firms declared in default • **after 31 December 2010** is up to 100 per cent of £85,000, • **up to 31 December 2010** different limits apply See our website for more information Deposits in all currencies are covered
Investment Provision and Intermediation	Investments We can provide protection if • investors suffer losses arising from bad investment advice, poor investment management, misrepresentation or fraud, or • an authorised firm cannot return investments or money owed to customers **Please note** that we can only consider claims for investment business conducted on or after 28 August 1988, which is the date when an investor compensation scheme was first established in the UK	The maximum level of compensation for claims against firms declared in default • **on or after 1 January 2010** is £50,000 per person per firm, • **before 1 January 2010** is 100 per cent of the first £30,000 and 90 per cent of the next £20,000 up to £48,000 per person per firm
Home Finance Intermediation	Mortgages Home Finance protection was extended to include advice and arranging home finance (e g mortgages) for business conducted on or after 31 October 2004	The maximum level of compensation for claims against firms declared in default • **on or after 1 January 2010** is £50,000 per person per firm, • **before 1 January 2010** is 100 per cent of the first £30,000 and 90 per cent of the next £20,000 up to £48,000 per person per firm

What FSCS protects and compensation limits (continued)

Industry sector or class	What we protect	Compensation limits
Insurance (General Insurance and Life and Pensions) Provision If possible, we aim to provide continuity of cover, for example by arranging for policies to be transferred to another firm If this is not possible, we can pay compensation to eligible consumers	Policies with authorised insurance firms under contracts of insurance issued in the UK or, in some cases, in the European Economic Area (EEA), Gibraltar, the Channel Islands or the Isle of Man Certain policies issued **before** 1 December 2001 may also be protected for risks elsewhere in the world Insurance contracts including life insurance policies such as pensions annuities and endowments, and general insurance contracts such as motor, home and compulsory insurance (e g third party motor insurance and employees' liability insurance) We do not cover re-insurance or marine, aviation, transport business and, from 1 December 2001, credit insurance Authorised firms in the UK or, in some cases, a firm's branch in the EEA on or after 14 January 2005	Claims for compulsory insurance are covered in full Claims for all other insurance where compensation is payable, the maximum level for claims against firms declared in default • **on or after 1 January 2010** is 90 per cent of the claim with no upper limit, • **before 1 January 2010** the maximum level of compensation is 100 per cent of the first £2,000 plus 90 per cent of the remainder
Intermediation	FSCS may be able to help • if consumers have been mis-sold a policy and lost money as a result, • if a firm is insolvent, • in cases of fraud **Note** Certain life insurance policies are treated as investment contracts and are subject to the investment compensation limits	

Can we help?

This decision tree shows the process FSCS uses to work out whether we can help consumers with their claims



Who is eligible?

To be eligible for compensation from FSCS, claimants must have suffered a financial loss caused by the activities of a regulated firm which has been declared in default

The aim of compensation is to restore consumers to the position they would have been in had the firm not been declared in default, for example if the financial product concerned had not been mis-sold

FSCS can only pay compensation that is essential and fair We cannot compensate for investments which have simply not performed well

What we don't cover

- We do not pay compensation because an investment has not performed as you hoped it would.
- We do not compensate for any projected shortfall in performance.

79%
of telephone calls were answered within 20 seconds

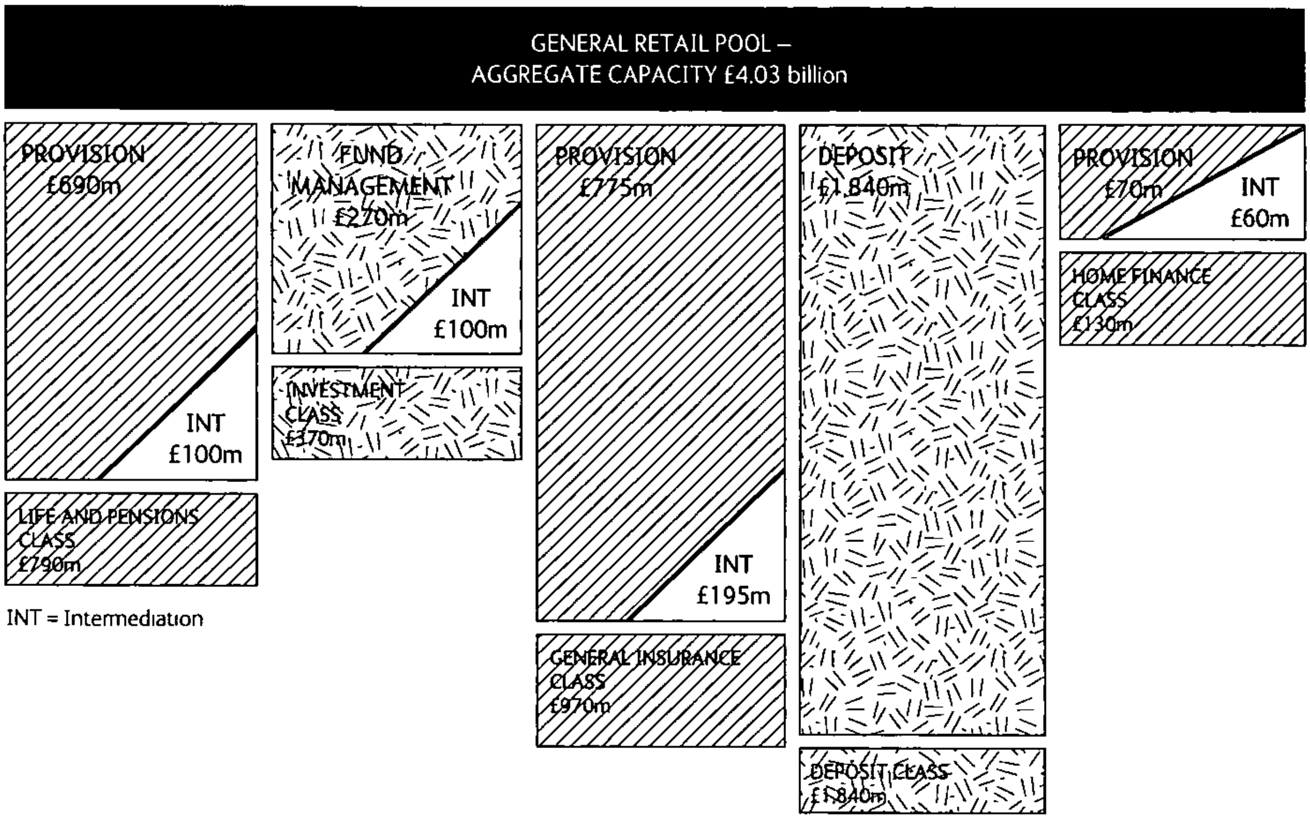
How we are funded

FSCS is funded by an annual levy paid by authorised firms in the five main classes (see diagram opposite)

- Deposit takers (banks, building societies and credit unions),
- Investments,
- General Insurance,
- Life and Pensions, and
- Home Finance

We only levy firms for the compensation we expect to pay out So, when claims exceed our forecasts, we may also raise an interim levy during the year However, we seek to reduce the cost to levy payers by recovering as much money as possible from the estates of failed firms We also have access to borrowing if needed

Class and sub-class annual levy limits



Notes

Diagram not to scale

Home Finance provision sub-class will not contribute to the general retail pool

Key points

- The next phase of our awareness programme will focus on FSCS protection by product and target consumers at the point when they are considering or buying financial products.
- Mystery shopping results showed a 20 per cent improvement in the quality of FSCS information which firms provide to consumers compared with previous results.
- Industry needs to do more to inform consumers of FSCS protection at relevant points in their dealings with them.
- New disclosure requirements have been developed for deposit takers.

We aim to raise public awareness of the protection provided by FSCS.

5

Raising Awareness of FSCS

We planned a new phase of our awareness programme and worked with the industry on improving communication with consumers

Building consumer confidence

One of the key aims of FSCS is to raise awareness of the protection it provides to consumers Raising awareness of FSCS protection is important because it builds consumer confidence, contributes to financial stability and helps to prevent possible consumer panic in troubled times

Research also suggests that consumers who are aware of FSCS are more confident in, and therefore more likely to buy, financial products So raising awareness of FSCS protection also benefits the industry This is recognised by MPs – in a recent poll 75 per cent agreed that FSCS is vital to ensuring public confidence in financial services

Following Phase 1 of the awareness campaign, brand awareness of FSCS, both prompted and unprompted, is around 40 per cent We are now developing the next phase of our programme based on what we learned in the first phase and additional research

More awareness before you buy

In this new phase, we have refined the strategy to emphasise the protection FSCS offers consumers and take a more product-based approach Our aim is to 'speak to' consumers at a point of relevance when the protection FSCS provides is salient to their circumstances In particular, the aim is to raise awareness of this protection at the point when consumers are considering, or taking out, new products

Our strategy will target two key objectives and behaviours

- to ensure that, in the event of a failure, consumers are reassured, react calmly and do not panic, and

75%

of MPs agree that FSCS is vital to ensuring public confidence in financial services

- those consumers who are at risk because they have money over the compensation limit, or in unregulated products, are aware of the risk and can make informed decisions

Accordingly our objectives are to reassure the majority that their money and savings are safe, and to warn those who unwittingly put their money at risk

Implementing the new strategy

Our new strategy was agreed by the FSCS Board and preliminary work was carried out to develop our messages In the second half of the year, FSCS ran a comprehensive procurement programme to appoint a planning agency to develop a clear, actionable and integrated communication plan across all channels

The new strategy will (as before) be tested with the industry We expect the industry to carry a significant share of the load in making sure that consumers are aware of the protection offered by FSCS

“

Research suggests that consumers who are aware of FSCS are more confident and likely to buy financial products

Working with the FSA and industry on disclosure

In addition, we worked with the Financial Services Authority (FSA) and trade bodies and firms on new requirements for deposit takers to display information about FSCS An FSA consultation, published in May 2012, included proposals for FSCS posters and stickers in branches and on websites, as well as making information leaflets available on request

In anticipation of this change, FSCS carried out research among deposit takers on a number of issues to help define our approach Key among these was adopting a corporate sticker for the main entrance of all deposit takers We found good support for information disclosure and for working with us to boost consumer awareness of FSCS protection

This was also supported by our poll of MPs, as 79 per cent agreed that banks and financial services firms should be required to inform customers of the protection offered by FSCS when selling financial products and services covered by FSCS

Improved mystery shopping results

The industry played a key role in the first phase of our consumer awareness programme Firms did much to support us, for which we are grateful We firmly believe the industry must play a leading role in promoting consumer awareness and understanding of FSCS The day-to-day contact that firms have with their customers provides an excellent opportunity to provide helpful, accurate information about FSCS to consumers The evidence shows that this is hugely important

Independent mystery shopping research carried out for FSCS in 2011 showed a 20 per cent improvement in the quality of information being provided compared with 2010 However, while the mystery shopping results revealed that some financial services firms are getting better at communicating information about FSCS, there is still significant room for improvement We will continue to work closely with the industry to build consumer awareness of FSCS and to improve consumer confidence And we will continue to carry out mystery shopping across the industry to monitor progress on this important issue

E-learning – boosting awareness among frontline staff

The latest mystery shopping results were encouraging, but there is still more to be done by the industry, and by FSCS We believe in supporting the industry to support us For that reason, we developed a partnership with the Financial Skills Partnership to scope and produce an online training module for frontline industry staff

By the end of the year, FSCS had commissioned its first e-learning module This will be provided to all customer-facing staff in banks, building societies and credit unions, with the potential for developing other modules in the future

Ongoing activity

Other awareness activity during the year included working closely with the industry and consumer organisations through our Consumer Awareness Advisory Panel The Panel played an instrumental role in shaping our first consumer awareness programme strategy and will continue to be important to developing the next phase of the programme

50%

of customer-facing financial services staff spontaneously mentioned FSCS during a customer query

Mystery shopping results

Question	2003	2007	2010/11 (Before Phase 1)	2011 (After Phase 1)
Spontaneously mentioned FSCS during customer query	21%	30%	42%	**50%**
Mentioned that FSCS was independent	Not asked	5%	10%	**14%**
Mentioned that FSCS could pay compensation if the firm was unable, or likely to be unable, to pay claims against it	Not asked	20%	33%	**37%**
Mentioned the compensation limits	18%	20%	39%	**45%**
Clarified that compensation applies per authorisation, rather than per account/brand	1%	Not asked	14%	**15%**

We also continued our regular quarterly briefings to the industry trade bodies and published 'Outlook' (our industry newsletter) during the course of the year, to coincide with our half year, Plan and Budget, annual levy and annual report announcements These activities remain a crucial part of our stakeholder relations

During the year, we also maintained ongoing public relations work This generated significant amounts of media coverage at low cost For example, stories about Payment Protection Insurance (PPI) and products not covered by FSCS protection, such as e-money and pre-paid cards, informed many thousands of people about FSCS coverage and limits We ensured that this work was consistent with our new strategy

Media coverage

The Daily Telegraph

Ryanair's sky-high charges

"Before taking out any products, consumers should ensure they visit our website or ask the provider about FSCS protection"

(1 October 2011)

IFAonline.co.uk

FSCS reassures Northern Rock savers after Virgin takeover

(18 November 2011)

The INDEPENDENT

As the Euro crisis ripples spread, are your savings completely safe?

(20 November 2011)

theguardian

FSCS Chief urges account holders to check savings distribution

(1 December 2011)

The Daily Telegraph

Warning on DIY banks

"The Financial Services Compensation Scheme has warned consumers that their money is not protected by peer-to-peer lending sites"

(8 December 2011)

Easierfinance

Peer-to-peer lending not protected by FSCS

(8 December 2011)

METRO

And if you really want to be safe .

"Under current legislation, only £85,000 of savings in commercial, building society or credit union accounts is protected"

(12 December 2011)

citywire

FSCS pays out £26bn in 10 years

"Far greater protection now exists than was available in 2001 Consumers should feel reassured that in these tough times the FSCS will continue to be there for them"

(15 December 2011)

Manchester Evening News

Manchester received £34m from Financial Services Compensation Scheme

"The FSCS has paid out more than £34m to Manchester since it was first set up 10 years ago, figures showed today"

(15 December 2011)

theguardian

Ten years of getting money back

"The FSCS has paid out £26bn over the decade"

(17 December 2011)

RIP OFF BRITAIN

Julia Somerville speaks with FSCS Chief Executive Mark Neale on behalf of viewers affected by their failed investment firms

(21 December 2011)

In a video interview with FTAdviser's Emma Ann Hughes, Mark Neale said he was happy that the way the compensation scheme calls on the industry to pay compensation for those hit by departing firms was being reconsidered.

(4 April 2012)

FT ADVISER

YORKSHIRE POST

Bank compensation rules to test savers' brand knowledge

(30 December 2011)

The Sunday Telegraph

How much will you lose if your bank is smashed to pieces?

"Savers don't know how much of their money they would get back"

(1 January 2012)

EVENING TELEGRAPH AND POST

Safeguard for 99 per cent of savers

(3 January 2012)

Western Mail

If your building society or bank goes bust, do you know how much of your money is protected?

(4 January 2012)

which?

80 per cent of consumers unaware of savings compensation limits

(4 January 2012)

MoneyMarketing

Three-quarters of PPI complaints to FSCS came through claims firms

(2 February 2012)

Mirror

Claims management firms set to rake in £12m in fees

(11 February 2012)

PRESS ASSOCIATION

Claims firms 'get £312m PPI payouts'

(11 February 2012)

SAVVYWOMAN

How much of your money is protected by the Financial Services Compensation Scheme?

(23 February 2012)

Sunderland Echo

£5.6bn cash stashed under UK homes

(25 February 2012)

which?

Few people know the FSCS limits for ISAs

(3 March 2012)

Key points

- FSCS paid out £347m in compensation in 2011/12, down from £535m in 2010/11.
- We recovered £673m from the major banking failures of 2008/09 and £30m from Keydata.
- We raised a total of £535m in levies, which included £344m for interest on loans from HM Treasury.
- Our management expenses, excluding Welcome and the banking failures of 2008/09, were just over £57m, which was less than forecast (£59m).

We aim to ensure that FSCS operates as cost-efficiently as possible and maximises recoveries from the estates of failed providers and third parties.

6

Compensation, Recoveries and Management Expenses

During 2011/12 we handled a large number of complex claims and saw a big rise in claims for PPI mis-selling, while successfully pursuing recoveries and working to reduce overall management expenses.

£759m was recovered from the estates of failed firms

Overview

FSCS made total compensation payments of £347m in 2011/12 This compares with more than £535m in 2010/11 This reduction is mostly due to the gradual decline in new claims related to the major banking failures of 2008/09 and investment intermediation defaults such as Keydata

The biggest rise in compensation came from claims for mis-sold Payment Protection Insurance (PPI), with one firm, Welcome, accounting for more than £41m of payments The table on page 49 shows total compensation payments by class and sub-class Details of decisions made and the average amount received per claimant can be found in Section 4

In order to reduce the cost of compensation to our levy payers, we actively pursued recoveries from the estates of failed firms and third parties During 2011/12, this brought in more than £759m, chiefly from the major bank failures of 2008/09, Keydata, and £49m from Welcome, which offset the compensation paid out for Welcome claims

During 2011/12, we also undertook a careful re-assessment of tariff data that was re-submitted by investment firms in respect of the interim levy of January 2011

We worked hard to become more efficient and keep our management expenses as low as possible, including upgrading our IT systems, streamlining our processes and working more closely with our outsource partners – you can read more about this work in Section 7

Update on high-profile defaults

MF Global

On 31 October 2011, MF Global Limited became the first authorised firm to be placed into default under the new Special Administration Regime (SAR), which came into force in February 2011. These new regulations were developed following the failure of Lehman Brothers, to improve the process for creditors when an investment firm fails.

From the date of default, FSCS has been working closely with the special administrators to resolve the complex issues relating to the wide range of business that the firm undertook.

Some of the areas that needed to be addressed included:

- clients – the firm had a large number and range of clients, from private individuals, who are protected by FSCS, to multinational corporations, which are not;
- data – the administrators advise that MF Global had more than 30,000 different products (some of which were not protected), with records held on many different systems; and
- currency – the administrators advise that business was transacted in approximately 30 different currencies.

More than 6,500 application forms were sent to individuals, trusts and corporate clients and FSCS started to make payments to eligible claimants at the end of 2011/12.

Keydata

Keydata Investment Services Limited was declared in default on 8 June 2009. This was a complex default that required FSCS to undertake in-depth investigations to ensure that it compensated eligible claimants properly and fairly.

Claims were accepted from three categories of investors:

- Keydata bonds backed by SLS Capital SA (Category One claims);
- Keydata bonds backed by Lifemark (Category Three claims); and
- Keydata tax claims backed by Lifemark (Category Two claims).

Most claims have now been completed. As at year end 2011/12, there were just 56 claims outstanding, although we continue to receive new claims in low volumes.

Keydata tax claims were largely completed during the preceding year, although a small number of residual cases were settled in 2011/12 with payment issued to HM Revenue and Customs to settle an unexpected tax liability arising from bonds incorrectly sold as ISA eligible.

The graph on page 45 illustrates the breakdown of claims, decisions and payments in each category since 2009.

Arch Cru

Arch Cru funds are open-ended investment companies which are substantially invested in Guernsey-based cell companies. The cell companies were suspended from dealing on 13 March 2009 because of liquidity problems.

The authorised corporate director, Capita, began an orderly winding up of the funds and a number of distributions have been made to investors. In June 2011, the Financial Services Authority (FSA) announced that it had reached agreement with Capita and two depositories of the funds to set up a £54m redress scheme. Payments under this scheme have now commenced.

The Arch Cru funds were largely sold by independent financial advisers (IFAs). At the end of 2011/12, FSCS had received around 750 claims against 27 different IFAs.

Because the funds were suspended, investors have been unable to realise their funds and so could not crystallise their losses. As there appears to be a value in the funds, it has been difficult to quantify losses accurately as required under FSCS rules. In order to calculate investors' losses, we take account of the redress scheme and we have established a method of valuation of the funds. We have also reviewed the nature of the funds to be able to assess the relevant risk levels.

This work was nearing completion at the end of 2011/12 and FSCS expects that decisions will commence on claims early in 2012/13.

Wills & Co

Wills & Co Stockbrokers Limited was a stockbroking firm declared in default in 2010/11. Wills & Co mis-sold high-risk shares, frequently to inexperienced investors, without making the risks of the investments clear.

During 2011/12:

- 818 claims were received;
- decisions were issued on 1,856 claims;
- the average compensation payment was £10,830; and
- the total compensation paid amounted to £18.6m.

At the end of the year only 62 cases remained outstanding, although we continued to receive new claims in low volumes.

Tariff data re-submission

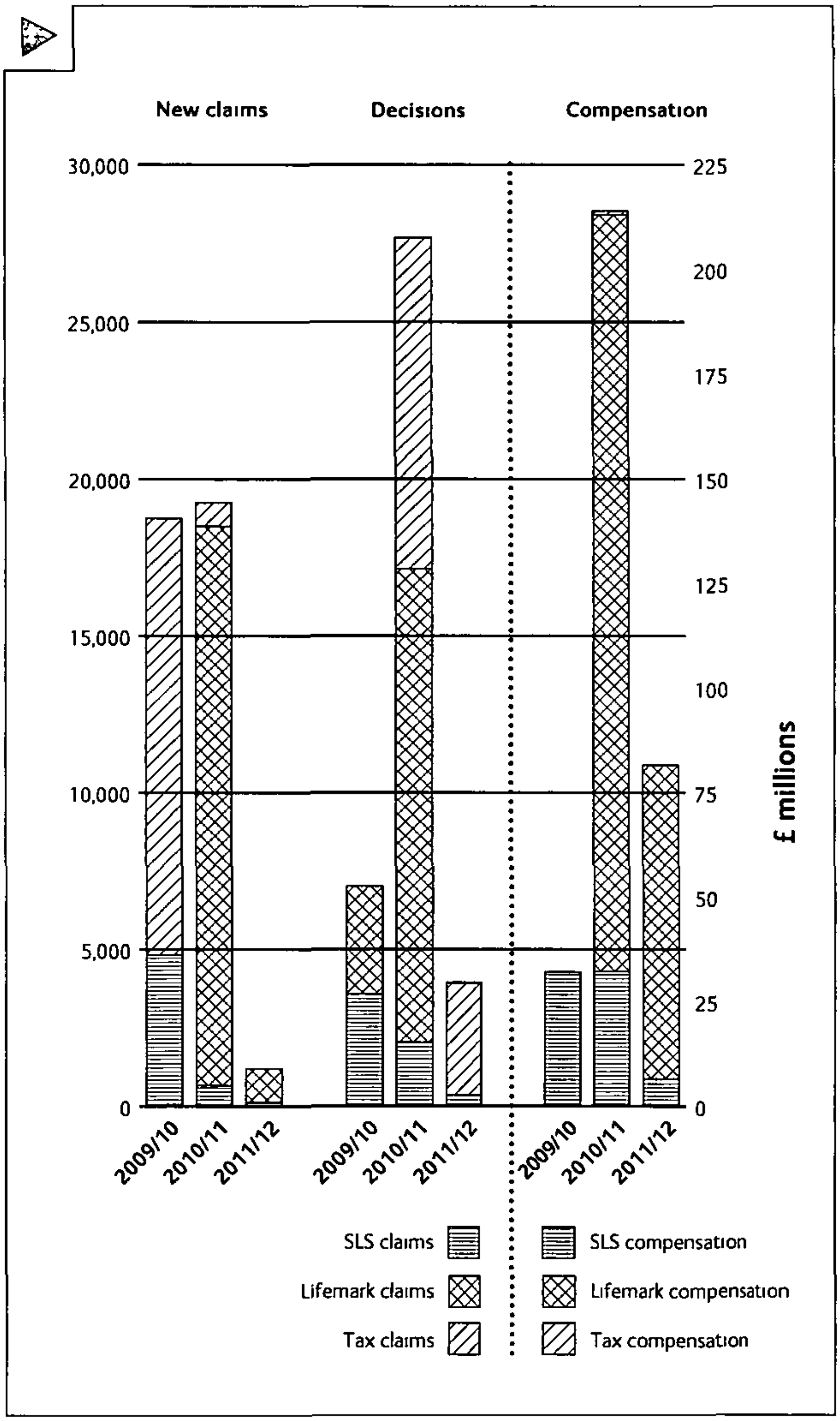
Compensation claims resulting from the Keydata failure led to an interim levy of £326m on the Investment Intermediation sub-class in January 2011, which in turn triggered a cross-subsidy by the Investment Fund Management sub-class.

We are now close to finalising requests from over 400 firms seeking to obtain a reduction or remission of their share of the interim levy. These requests result from applications to re-submit tariff data which was originally submitted to the FSA before 31 March 2010. We are now close to determining all these requests, although some are still under review, as we have needed to obtain additional information from many firms. We cannot be certain precisely when the process will be completed.

We will determine firms' revised share of the interim levy once the final outcome of the review process is known. This will take account of the final costs of meeting compensation claims from Keydata and recoveries received. At that point, further invoices or refunds will need to be issued to firms in the Fund Management and Investment Intermediation sub-classes.

Following the interim levy invoices issued in January 2011, a large number of firms have applied to FSCS to re-submit their tariff data (submitted in 2010 for the FSCS 2010/11 levy year). During the course of this levy review process, it has come to our attention that firms in the Investment Fund Management sub-class (SD01) have been reporting annual eligible income relating to Collective Investment Schemes (CIS) on an inconsistent basis. FSCS does not have the data to enable it to accurately quantify either the potential value of this issue for the levy review process or the number of firms that could be affected. As a result, FSCS intends to issue a public statement clarifying how CIS income ought to be reported by firms under the current rules and explaining the consequences of this for the 2010/11 levy review process.

Keydata claims, decisions and compensation



Update on the major banking failures of 2008/09

FSCS was instrumental in protecting the deposits in more than 4m customer accounts following the defaults of five banks in 2008 These were

- Bradford & Bingley Plc (B&B),
- Kaupthing Singer & Friedlander Limited (KSF),
- Heritable Bank Plc (Heritable),
- Landsbanki Islands hf (Icesave), and
- London Scottish Bank Plc (London Scottish)

Since then, FSCS has paid out total compensation of £23bn to customers of these banks, including approximately £3bn on behalf of HM Treasury

During 2011/12, we continued to make good progress in paying the few outstanding claims, paying out £39 6m, £18 3m on FSCS's own behalf and £21 3m for HM Treasury – see Note 11 in the Notes to the Financial Statements for more information, page 115

We also continued to pay compensation on maturity of fixed-term deposits retained by depositors Compensation for such deposits will continue to be payable until 2013

The cost of funding the banking failures

The scale of these compensation payouts meant that FSCS had to borrow, initially from the Bank of England This borrowing was refinanced with longer-term loans from HM Treasury

A review of the terms of the loans took place in 2011/12 and resulted in a change in the interest rate from 12-month LIBOR plus 30 basis points to 12-month LIBOR plus 100 basis points, adjusted monthly, or the relevant gilt rate if higher This took effect from 1 April 2012

The amount outstanding on these loans as of 31 March 2012 is just under £18bn Interest payable in 2011/12 amounted to just over £370m compared with more than £334m in 2010/11 This increase was because of higher interest rates in 2011/12

The interest on these borrowings is classed as a 'specific' cost within FSCS's management expenses This means that the interest payments are funded through levies on firms in the Deposit class only The terms of the loan agreement are reviewed every three years

Banking and building society defaults, compensation and recoveries

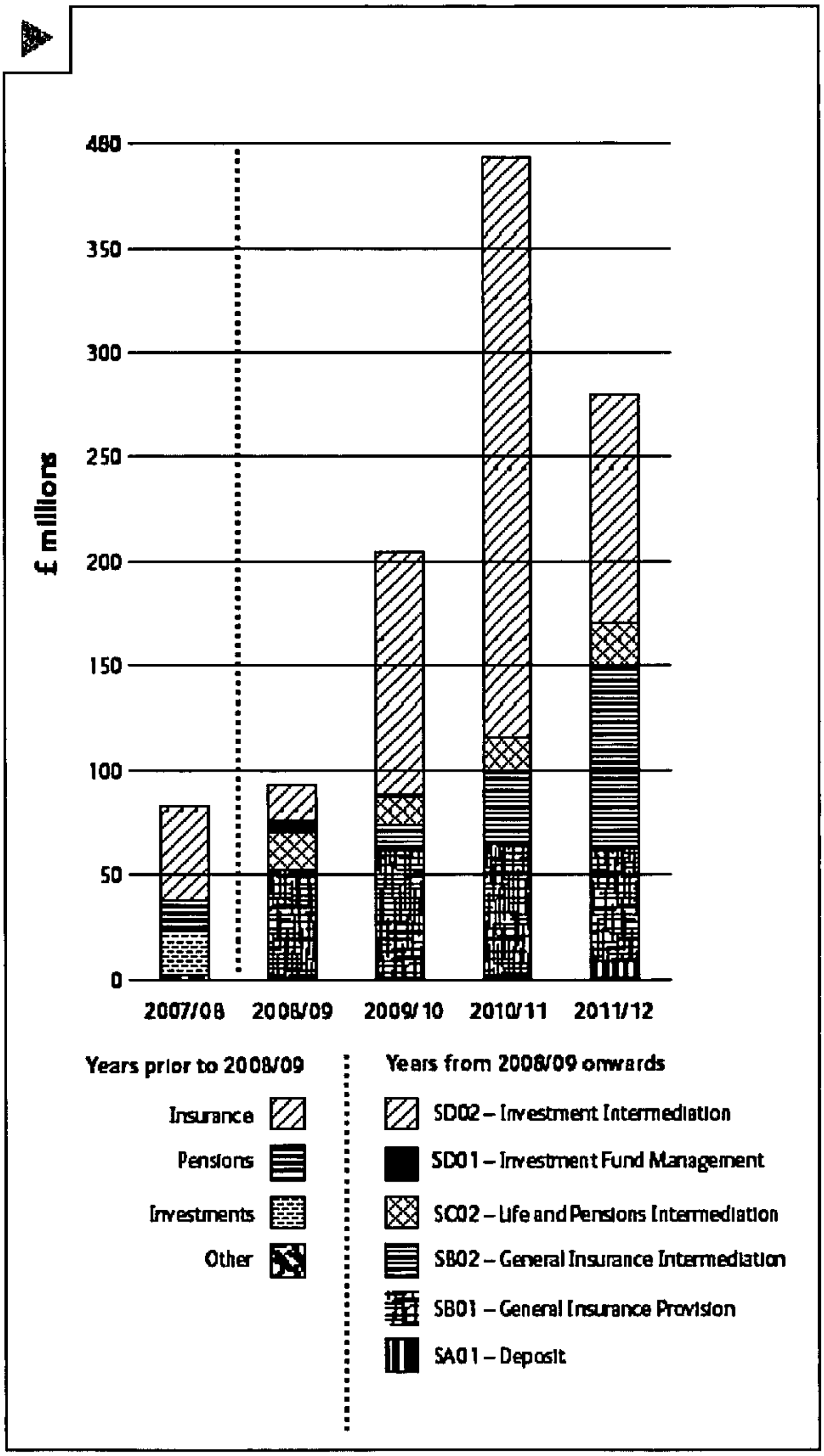
Firm	Estimated total compensation cost	Recoveries as at 31 March 2012	Prospects of future recoveries
Bradford & Bingley	£15,650m	N/A	B&B's management forecasts full repayment of the FSCS loan but timing remains uncertain FSCS is working with B&B, UK Financial Investments Limited (UKFI) and HM Treasury on this issue
KSF	£2,582m	Received dividends of £1,627m (63 per cent)	Anticipate total dividends between 81 per cent and 86 per cent
Heritable	£465m	Received dividends of £315m (68 per cent)	Anticipate total dividends between 86 per cent and 90 per cent
Icesave	£1,440m	Received dividends of £442m (31 per cent)	Anticipate total dividends worth over 90 per cent
London Scottish	£237m	Received dividends of £45m (20 per cent)	Anticipate total dividends of approximately 30 per cent
Dunfermline Building Society	N/A	N/A	Recoveries are paid to HM Treasury and FSCS pays the shortfall in resolution costs (subject to a statutory cap) Provision £505m

Update on Dunfermline Building Society

Dunfermline Building Society (DBS) was the first deposit taker to be resolved under the Special Resolution Regime that came into force under the Banking Act 2009

Based on the best information available to the directors, FSCS has made a provision of £505m in respect of the contribution it is required to make to fund the Tripartite Authorities' (HM Treasury, the FSA and the Bank of England) costs These costs include a further £50m in interest costs at a rate of 4 5 per cent for the DBS resolution for the year to 31 March 2012

Compensation payments (excluding major banking failures of 2008/09 and Dunfermline): 5-year trends



Compensation payments by class/sub-class

Funding sub-class	2011/12 (£m)	2010/11 (£m)
Deposits (excluding the major banking failures of 2008/09 and Dunfermline Building Society)	7 8	1 7
General Insurance Provision	54 3	61 6
General Insurance Intermediation	45 0	35 8
Life and Pensions Provision	0 0	0 0
Life and Pensions Intermediation	20 6	16 2
Investment Fund Management	0 2	0 1
Investment Intermediation	108 8	277 2
Home Finance Provision	0 0	0 0
Home Finance Intermediation	0 3	0 3
Sub-total	**237 0**	**392.9**
Major banking failures of 2008/09	18 3	87 4
Dunfermline Building Society	50 0	55 0
Sub-total	**305 3**	**535.3**
Welcome	41 4	0 0
Total	**346.7**	**535.4**

Update on the main PPI-related defaults

Welcome Financial Services Limited: Welcome was declared in default in March 2011 having mis-sold a large volume of PPI policies However, an innovative scheme of arrangement agreed with the firm allowed Welcome to cover the cost of both compensating claimants and processing the claims We do not envisage FSCS's levy payers incurring costs relating to PPI claims against Welcome

Welcome also acted as claims-handling agent on behalf of FSCS under our guidance and control, which enabled quicker payouts In the year since the default, 350,000 Welcome customers were contacted and FSCS has settled more than 55,000 claims, the vast majority within the target time of eight weeks This resulted in £41 4m being paid out to consumers during 2011/12

Keater Limited (formerly Mortgage Advice Services Limited) This firm was a general insurance mediation firm dealing in PPI, declared in default in December 2010 The firm typically sold short-term policies against long-term mortgage borrowing and was very active in the market. During the year FSCS received 3,143 claims and completed 2,444 The uphold rate on this default is 95 per cent and we have paid £7 7m in compensation

Wilmslow Financial Services Plc (formerly trading as Freedom Finance) The main activity of this firm was advising on and arranging financial products, including PPI The firm was declared in default in

Our innovative arrangement with Welcome saved levy payers

£41m

July 2011 and claims against this firm had been processed under our re-engineered process, described on page 21. During the year FSCS has received 1,586 claims from Wilmslow customers. To date 1,192 claims have been completed. The uphold rate on this default is 74 per cent and we have paid £3.8m in compensation.

Picture Financial Services Picture Financial Services specialised in selling PPI for mortgages and was declared in default during the 2009/10 financial year but has remained a significant default for FSCS. During 2011/12, more than 1,632 more application forms were received with volumes remaining steady throughout the year. Decisions were issued on 1,582 claims with an uphold rate of 87 per cent and compensation totalling £12.4m paid. FSCS expects work on this default to continue throughout 2012/13.

PPI claims related to major failures 2011/12

Firm	Claims received	Decisions	Claims upheld	Compensation paid (£m)
Welcome	67,696	55,000	95%	41.4[1]
Keater	3,143	2,444	95%	7.7
Wilmslow	1,586	1,192	74%	3.8
Picture	1,632	1,582	87%	12.4

Note

1 Total compensation due to Welcome customers was £95.7m, however, £54.2m of this was offset against amounts still owed by them on loans they held from Welcome.

General Insurance claims

Employers' liability policies issued by Chester Street Insurance Holdings Limited accounted for the largest share of compensation payments in General Insurance. Total compensation paid was more than £54m, a decrease of more than £7m from 2010/11.

This reflects increasing claims related to policies covering noise-induced hearing loss (NIHL), particularly claims in Scotland where compensation levels have been increased by changes to the law for the evaluation of damages.

The increase in Chester Street damages was partly offset by a reduction of more than £6m in the compensation paid to Independent Insurance Company Limited claimants compared with 2010/11. This was also responsible for a decrease in the overall number of compensation payments made.

A total of 7,194 new claims were made against the policies of insurance estates managed by FSCS in 2011/12. This is an increase of 2,015 on the figure from the previous year and is largely due to increases in notifications of NIHL claims across all estates.

Recoveries – reducing the cost to levy payers

FSCS pursues recoveries from the estates of failed firms and third parties where it is reasonable and cost-effective to do so, in order to reduce the cost to levy payers

The approach to recoveries varies between classes and is determined on the facts of each case In general, claims are always pursued with insolvency practitioners, such as the liquidators or administrators, where there is a prospect of dividends to creditors You can read more about our recovery policy on our website

In 2011/12, we recovered £759m from the estates of failed firms, compared with £756m in 2010/11 This includes £673m in recoveries from the major banking failures of 2008/09, £30m in recoveries relating to Keydata and £49m in recoveries from Welcome Financial Services Limited

Keydata recoveries

We have actively pursued recoveries relating to investment firm failures, most notably Keydata FSCS has so far recovered more than £30m related to Keydata following the agreement reached with the Norwich and Peterborough Building Society in April 2011

As part of our ongoing recovery investigations, we believe good claims exist against a large number of IFAs for losses that have been suffered by investors in certain Keydata products As a result, during the course of this year, we have issued claims against these IFAs We have committed significant funds to pursuing these claims in the next financial year but cannot comment further on these proceedings at this stage

We also continue to be involved in the complex restructuring of Lifemark SA, the Luxembourg securitisation vehicle, which issued a large number of the investment bonds marketed by Keydata As a result of paying compensation to Keydata investors and taking assignments of their claims, FSCS has become the largest single creditor of Lifemark We have been working with the other interested parties (including the provisional administrator in Luxembourg) throughout the year on a restructuring that would allow Lifemark to maintain its asset portfolio and to maximise returns to investors That process continues During the year, FSCS lent money to the estate to ensure that it had continued cash liquidity to allow for better management of the assets This loan (plus interest) was repaid in full

Recoveries from insurance estates

We recovered around £4m for the year from general insurance estates, including more than £1m from both Chester Street and Drake Insurance Plc (from which a larger dividend is expected in 2012/13) Other notable recoveries included a £0 5m dividend from English & American Insurance Company Limited

Recoveries from the major banking failures of 2008/09

During 2011/12, FSCS made recoveries totalling £673m against its costs in the form of dividend payments from the insolvency practitioners in four of the banking failures, namely

- £442m from Icesave,
- £148m from KSF,
- £60m from Heritable, and
- £23m from London Scottish.

This brings the total recoveries from the major banking failures of 2008/09 to almost £2.5bn since 2008.

Icesave

The recovery made from Icesave followed a judgment by the Icelandic Supreme Court in October 2011, upholding the priority status of depositor creditors. FSCS, along with other depositors, was party to the litigation to resolve this issue. Following the judgment, the Winding-up Board made a first distribution to FSCS of about 31 per cent of the value of the claim, and further distributions are expected during 2012/13.

Bradford & Bingley repayment

B&B was the largest of the banking failures and accounts for the majority of the borrowing described above. Although no recoveries were made from the bank in 2011/12, its management has forecast a full repayment of the principal amount of the FSCS contribution.

B&B is currently in public ownership and continues to run-off its existing mortgage assets. The precise timing of the recovery remains highly uncertain, and could be over many years. We are closely monitoring the situation and reviewing progress with HM Treasury and UKFI, which was set up to manage the Government's investments in financial institutions. When the position becomes clearer, we will report to levy payers.

Repaying the non-Bradford & Bingley loans

FSCS's current intention, which will be reviewed in the light of market conditions, is to recover the remainder of the principal on the non-B&B loans (not recovered from the estates of the failed banks), estimated to be around £800m, by levying the deposit-taking class in three roughly equal instalments beginning in 2013/14.

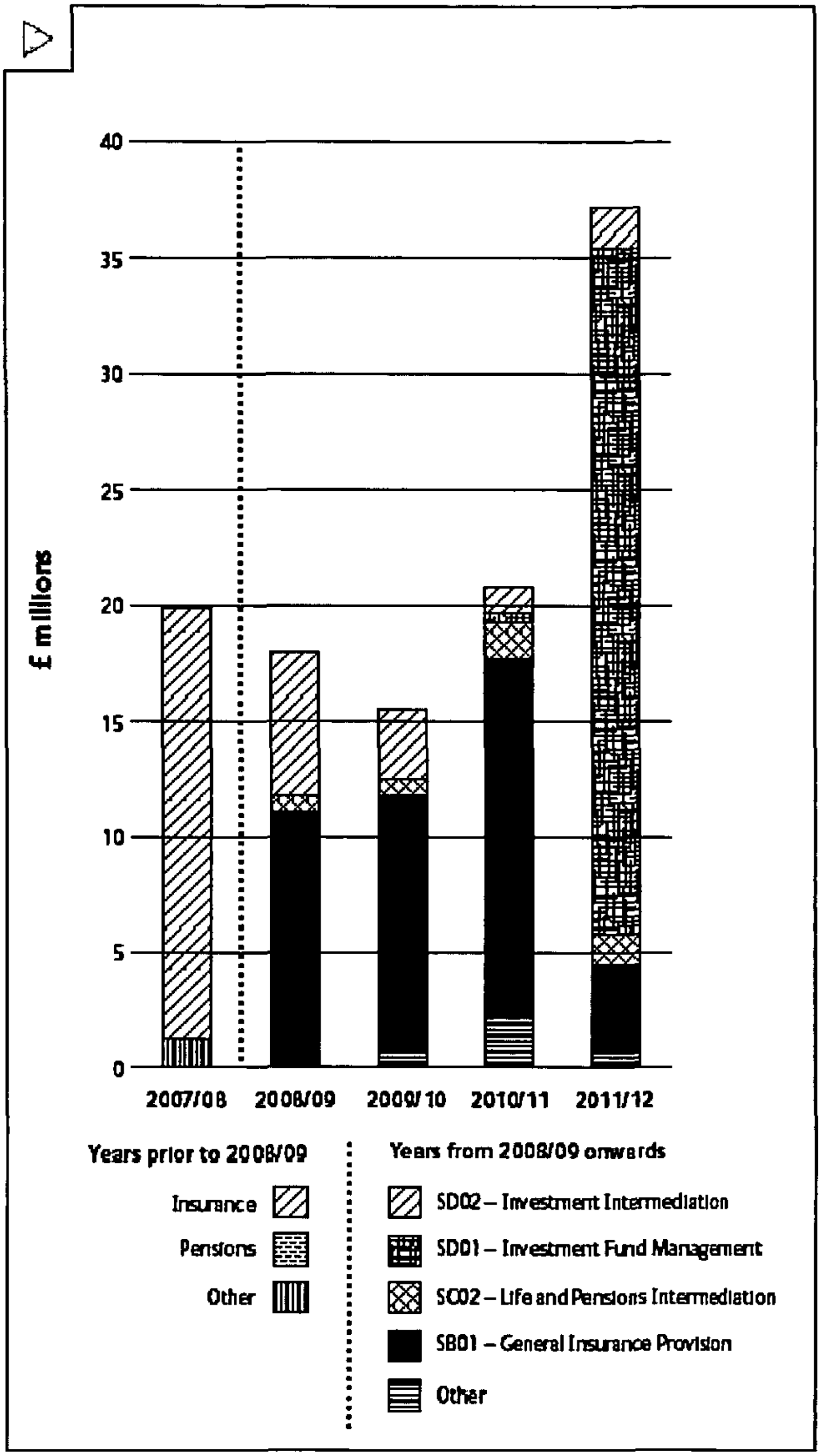
Levies received

Compensation costs are funded by levies on authorised firms across five broad classes in the financial services industry. Four of these five classes are divided into two sub-classes, depending on the regulated activity the firm carries out. During 2011/12, levies received totalled £535m. This amount includes an interest cost levy for the major banking failures of 2008/09 of £344m.

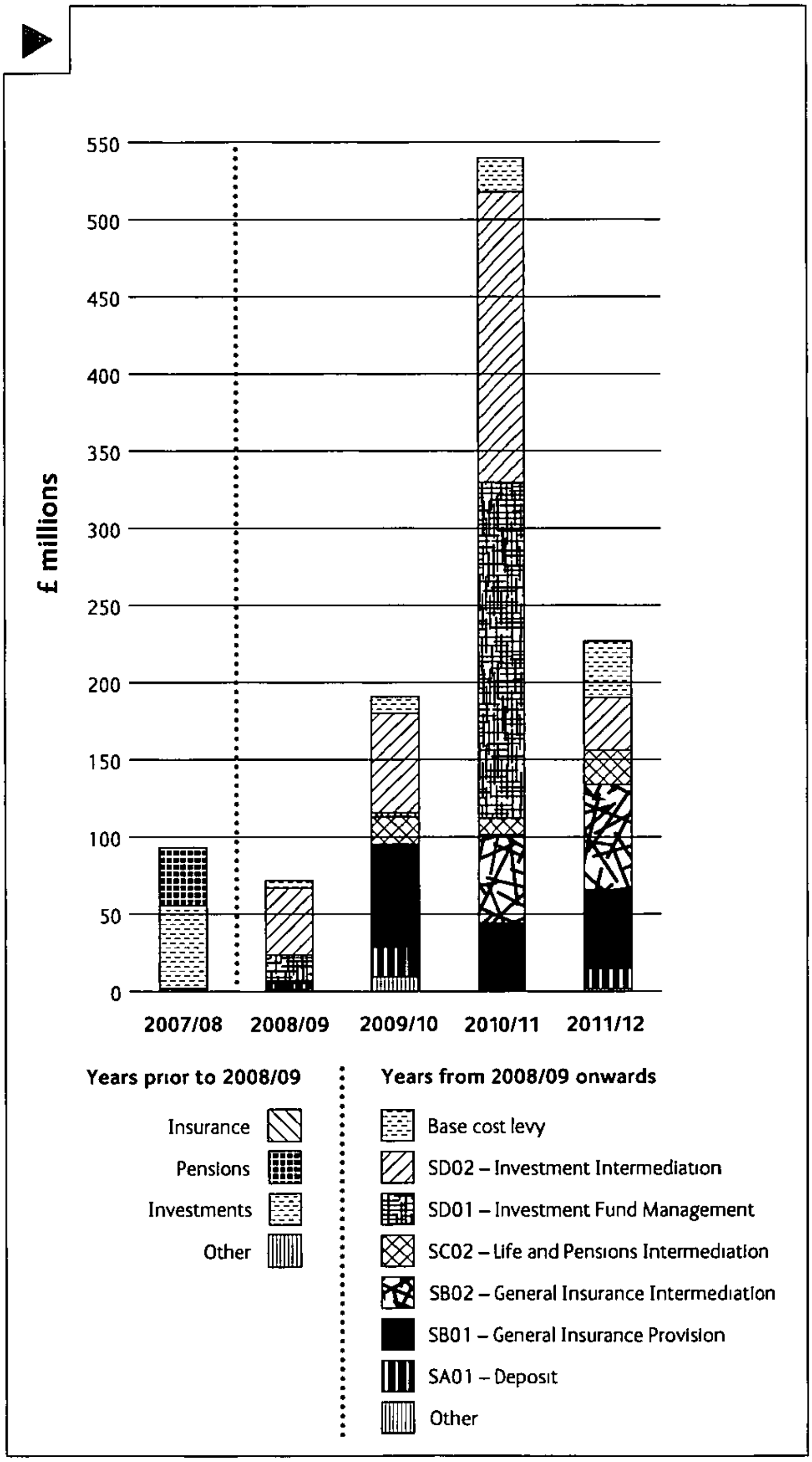
Interim levy

Because of the higher than expected cost of claims during the year, FSCS issued an interim levy of £60m for investment intermediation firms towards the end of 2011/12. The levy, which primarily relates to claims against MF Global, Arch Cru, Wills & Co and Keydata, is required to ensure that FSCS had the funds to pay compensation to July 2012. As our annual levy is raised after 1 July, the element of our levy which covers compensation costs is based on a 1 July to 30 June year.

Recoveries (excluding major banking failures of 2008/09): 5-year trends



Levies raised (excluding major banking failures of 2008/09): 5-year trends



Management expenses

FSCS aims to control its management expenses in order to reduce the costs imposed on the industry Those expenses consist of

- the 'business as usual' costs of running FSCS, including the handling of claims,
- our investment in strengthening our future capability and improving our efficiency, and
- the interest costs and associated management expenses on the loans from HM Treasury to cover the costs of the major banking failures of 2008/09

All these expenses are governed by a Management Expenses Levy Limit (MELL), which is set annually by the FSA after consultation It limits the amount FSCS can levy in respect of management costs each year

The MELL for 2011/12, set at £1bn, was based on a forecast budget expenditure of £406m and allowed for interest rate increases for the banking loans The actual management expenses amounted to £428m This included interest costs of £370m on the loans made by HM Treasury to FSCS to meet the costs of compensating depositors in the major banking failures of 2008/09 and costs for FSCS to access a £1bn syndicated loan facility which will enable FSCS to deal with any cash flow requirements imposed by a major failure It did not include costs for Welcome, which the industry was not required to pay

FSCS running costs

The running costs of FSCS in 2011/12 were £57 2m, excluding Welcome[3] and the costs associated with the major banking failures of 2008/09, compared with a budget of £59m

To minimise these costs, as well as pursuing recoveries, we constantly look to increase our efficiency and streamline our processes Key to this is our use of outsource partners to handle the great majority of claims we receive, enabling us to flex our capacity and costs quickly in response to fluctuations in our workload For example, the great majority of PPI claims have been dealt with by FSCS's outsource partners

The graph on page 57 shows a full breakdown of management expenses against the number of claims we handled This shows that although the number of claims decisions has fallen, FSCS's running costs increased in 2011/12 However, a large proportion of this increase is the cost of processing Welcome claims, which are not funded by the industry

Other costs included investment in our change programme to make FSCS more efficient and in pursuing recoveries The costs relating to recoveries amounted to about £7m, but we expect to receive recoveries in excess of these costs in the next few years We also incurred costs of £3 8m to secure a new borrowing facility which enabled the organisation to access funds of up to £1bn to manage cash flow where compensation costs become due before the proceeds of a levy are available to FSCS

3 Costs for Welcome have not been included as these do not fall to the industry Any costs relating to processing claims for Welcome are currently being funded by Welcome following an innovative scheme of arrangement agreed with FSCS FSCS remains responsible for all claims relating to Welcome.

Management expenses: comparison of actual to budget	2011/12 Actual (£m)	2011/12 Budget (£m)	Variance H/(L) (£m)
Employment costs	12 0	11 7	0 3
Other staff costs	3 4	2 8	0 5[1]
Total staff costs	**15 3**	**14 5**	**0 8**
Outsourcing	11 6	13 9	(2 3)[2]
Other expenses	20 4	9 2	11 2[3]
Sub-total management expenses excluding change programme and major banking failures of 2008/09	**47.3**	**37 6**	**9 7**
Change programme	9 9	21 4	(11 5)[4]
Sub-total operations and change programme expenses	**57.2**	**59 0**	**(1 8)**
Management expenses related to 2008/09 major bank defaults	0 8	2 7	(1 9)
Sub-total management expenses (excluding interest on loans related to major banking failures and Welcome Financial Services Limited)	**58 0**	**61.7**	**(3 7)**
Interest on loans related to 2008/09 major banking failures	370 2	344 2	26 0[5]
Sub-total (excluding costs relating to Welcome Financial Services Limited)	**428 2**	**405 9**	**22.3**
Expenses related to Welcome Financial Services Limited	7 4	0 0	7 4
Total management expenses	**435.6**	**405.9**	**29.7**

Notes on major variances

1 Other staff costs were higher than budget due to recruitment costs and use of additional short-term contractors during the transition to and establishment of the new FSCS organisation structure

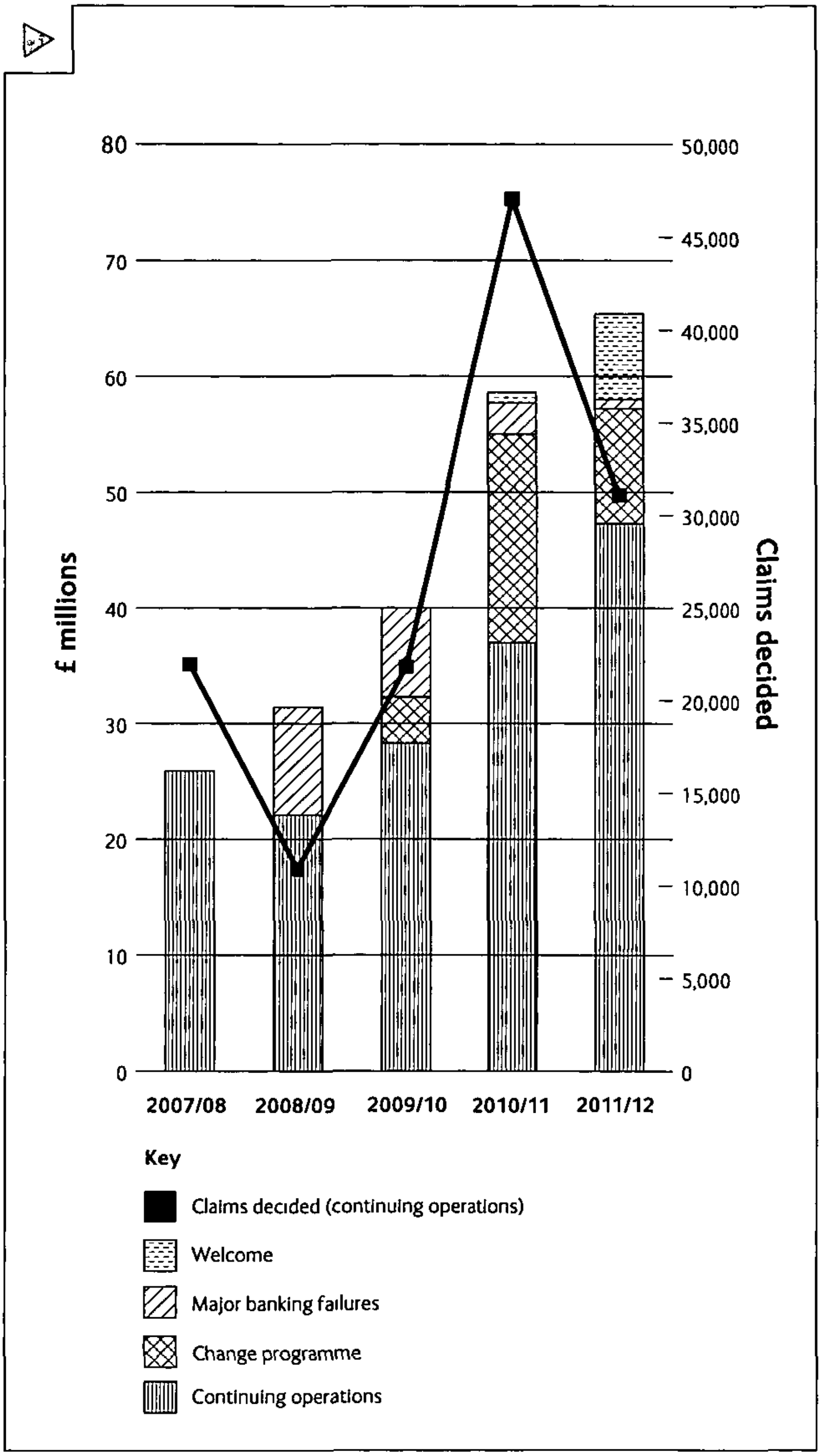
2 Outsourcing costs were lower than budget mainly because of significantly lower PPI volumes than expected

3 Other expenses were significantly higher than budget because of the £7 9m cost of pursuing recoveries following the Keydata failure and the £3 8m cost of securing the £1bn short-term finance facility

4 Change programme costs were significantly below budget because of the deferral of project expenditure on the consumer awareness campaign, claims process re-engineering and the FSCS office relocation to 2012/13

5 Interest on loans related to 2008/09 major bank defaults was higher than budget as the 12-month LIBOR rate was higher than anticipated

Management expenses (excluding loan interest on major banking failures of 2008/09): 5-year trends



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We worked hard to become more efficient and keep our running costs as low as possible

Key points

- We upgraded our claims management IT system to make it more flexible and resilient, and began to streamline our claims-handling processes.
- We continued to prepare for the new regulatory regime due in 2013, working closely with the proposed regulators.
- We enhanced our enterprise risk management with more thorough risk assessment throughout the organisation.
- We took part in a major industry-wide disaster recovery exercise and continued to test our contingency plans for major defaults.
- We completed our organisation restructure and introduced a new People Strategy designed to build a high-performance culture among our employees.

We aim to be ready to respond to defaults in the financial services industry to protect consumers and financial stability. We also aim to enhance the capability of FSCS by enabling the people who work for us to develop their skills, knowledge and professionalism.

7

Enhancing FSCS Capabilities

We upgraded our systems to make FSCS more efficient, resilient and ready to respond. We also strengthened our ability to meet future challenges and risks, while continuing to develop the skills and knowledge of our people.

More responsive and resilient

FSCS is committed to learning from our experience of previous defaults in order to improve our service to consumers, reduce costs to the industry and increase our readiness to respond to future issues

In order to achieve these outcomes, we are investing in our systems and processes to make them more responsive, flexible and resilient This work is now under way and will continue throughout 2012/13

During 2011/12, we reviewed our approach to these projects, in order to improve the effectiveness of delivery As a consequence, some of the work planned for 2011/12, and the related expenditure, has been deferred into 2012/13 This is the reason for the difference between budget and actual spend in the capability projects expenditure table on page 61

IT upgrades

The first project to be completed is a major upgrade of our claims management system (Siebel) This system can now be hosted and managed externally, while staff and outsourcing partners can access it remotely for the first time

These changes are a major boost to FSCS's resilience, enabling us to continue providing a service to consumers in the most challenging situations

Our document management system has also been upgraded to make it fully compatible with Siebel, as well as more efficient and accessible

We spent almost **£10m** on projects to improve our readiness and efficiency

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Our improved systems can continue providing services to consumers in the most challenging situations

Other benefits from this programme of work include a new Business Information Data Warehouse, which will make it easier to generate accurate and timely management information reports

Process improvements

Building on our IT upgrades, we have now started work on streamlining our operational processes The aim, as far as possible, is to find standard processes to handle claims across all types of default Standard processes would improve customer responsiveness by being faster, more efficient and more cost-effective

Work is currently in the early stages of detailed planning We have restructured the approach to this project and, in so doing, deferred some 2011/12 expenditure into 2012/13 We expect the overall expenditure to be considerably less than planned, with the bulk of the cost being incurred in 2012/13

Other capability projects

We continued the work begun in 2010/11 on providing faster payouts to claimants including a new system designed to pay deposit claims electronically (see page 63) We also invested in FSCS's relocation from two floors in Lloyds Chambers, London, to a single floor in nearby Beaufort House The relocation coincides with a break in the Lloyds Chambers lease The new premises are more cost-effective and will bring all FSCS staff together on one floor The move is due to be completed in summer 2012

Regulatory and mandatory projects in 2011/12 included the completion of Phase 1 of our consumer awareness campaign (see Section 5), feeding into the Financial Services Authority's (FSA's) forthcoming Funding Review, and continuing to improve FSCS governance structures (see Section 8)

Capability projects expenditure

	Budget 2011/12 (£m)	Spend 2011/12 (£m)
Process improvement	42	25
IT upgrades	60	57
Consumer awareness	32	03
Regulatory and mandatory projects (excluding consumer awareness)	34	04
New projects/investments (including contingencies)	40	10
Total	20.8	9.9

Preparing for regulatory reform

FSCS needs to be ready to respond to legislative changes which affect the financial services industry During 2011/12 we have been preparing for the Financial Services Bill, which is set to introduce major changes to the UK financial regulatory sector

The Bill will establish two new regulatory bodies, which replace the functions of the FSA

- the Prudential Regulation Authority (PRA), which will be responsible for the authorisation, regulation and day-to-day supervision of deposit takers, insurers and certain investment firms, and
- the Financial Conduct Authority (FCA), which will supervise all other firms, with a particular focus on protecting consumers and ensuring market integrity

FSCS will be accountable to both these bodies under the new regime, which we expect will come into effect in 2013 We are working closely with the FSA and incoming directors of the PRA and FCA structures to ensure continued co-operation and a smooth transition process We expect to agree our draft Memoranda of Understanding with the PRA and FCA shortly

European legislation

FSCS has also been working on potential legislative changes contained in the proposals for a revised Deposit Guarantee Scheme Directive and Investor Compensation Scheme Directive

If accepted, the proposals are expected to change the funding model for deposit protection schemes across Europe, including FSCS, with pre-funding of schemes a possible option

However, there has been considerable debate between the European Commission, European Council and the European Parliament about the content of these Directives and the texts have yet to be finalised FSCS is working with the UK authorities and its European counterparts on these developments

Stronger risk management

The main external risks to FSCS come from changes in UK and global financial markets, which impact the financial services industry These, in turn, affect how we finance compensation payments, manage recoveries and run our operations The biggest risks arise from

- large business failures,
- failures of firms dealing in complex structured investment products,
- overseas/cross-border failures,
- changes in technology and operations, and
- market competition for skilled resources

Enterprise approach to risk

To strengthen our resilience to these and other risks, FSCS has adopted an 'enterprise' approach to risk management, in line with corporate governance best practice This means having robust processes in place to identify, assess and deal with all risk types throughout the organisation

Enterprise risk management is being rolled out to all functional business units Managers and staff are being trained in risk management techniques and given responsibility to identify, assess, monitor and report operational risks under the guidance of risk management staff Risk assessments are also included in all process reviews, using formal tools and supporting governance, in line with ISO 31000

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We aim to find standard processes for handling claims that are faster, more cost-effective and efficient

Review and oversight

All risks are kept under active management and are subject to frequent review by FSCS's Executive Committee They are subject to quarterly oversight and challenge by the Audit Committee and at six-monthly full Board reviews FSCS also carries out internal audits of the Risk Management function

As well as robust risk management, FSCS plans carefully for contingencies, ensuring that we can continue to respond to consumers in any eventuality

Ready for contingencies

During 2011/12, we worked closely with our partners in government, the regulators and the industry to be better prepared for future crises and to plan our response to major failures

FSCS took part in several exercises with our partners that have enabled us to forge strong relationships and update protocols These included a major industry-wide simulation based on an incident during the London Olympics

This was the first time FSCS had engaged with such an industry-wide exercise It not only informed our Olympic planning for a continuous service to consumers during the Games, but also enabled us to test our incident management plans and build on the lessons identified

Responding to unexpected failures

Within FSCS we carry out testing of our contingency plans for major defaults, based on a wide range of 'what if' scenarios These exercises have helped us prepare for failures and to pay compensation efficiently when unexpected failures occur

The successful implementation and verification of single customer view files has given FSCS the ability to compensate consumers of deposit failures faster An example of this process in operation was the speedy way we compensated more than 95 per cent of Southsea Mortgage and Investment Company Limited depositors the day after the bank failed

We are also developing a new electronic payout system, due to be introduced in 2012/13 This will further boost our readiness and capability to respond to unexpected failures More information on Southsea Mortgage and Investment Company Limited and the new electronic payout system can be found in Section 4

FSCS has also agreed a £1bn loan facility with a syndicate of banks The facility will support FSCS to deal with any cash flow requirements that might be imposed by a major failure

Identifying future risks

As well as planning for likely failures, we also work with our partners to identify other risks that could impact on FSCS in the future As part of this 'horizon scanning', FSCS utilises our relationships with trade bodies and regulators to help spot any new trends or likely source of claims to assist our planning

Identifying trends as early as possible will help to ensure that FSCS is well prepared to handle all types of failure efficiently and effectively

Contingencies Planning Committee

All of this work is reviewed and challenged by FSCS Contingencies Planning Committee The newly established committee, composed of two executive and four non-executive directors, has created a governance structure that enables us to better consider our contingency planning arrangements and the current state of readiness (see Section 8, page 79)

Developing our people

During 2011/12, we completed our new organisational structure, outlined in last year's report, and introduced a new People Strategy, designed to build a high-performance culture and help deliver our aims efficiently and effectively

The People Strategy will ensure that we attract, retain and develop people with the right skills and experience to deliver better services to consumers It will also help us to meet the increasing demands placed on us – for example, the ability to meet stricter deadlines for compensation payments

We shall achieve this by focusing on recruiting highly skilled people, using more robust performance management and greater recognition and reward for good performance, as measured against our four core values

- focusing on service to consumers – **delivery**,
- respecting each other within a supportive environment – **working together**,
- taking personal responsibility for the service we provide – **making a difference**, and
- always seeking to improve – **excellence**

Performance management system

Our new performance management system is designed to give a more rounded view of people performance not only against job-based objectives, but also against our values and a set of core FSCS competencies

As part of this process, a new performance journal has been introduced to enable managers and employees to discuss and review development on a continuing basis Regular one-to-one meetings are also held throughout the year

People survey 2011

FSCS commissioned Best Companies to survey our people during 2011 in order to establish how they perceived the organisation and to enable us to improve engagement.

The results of the survey revealed that FSCS employees

- understand the aims and objectives of FSCS and their respective teams,
- experience FSCS as a friendly place to work and care about its future,
- understand how their role helps FSCS to achieve its aims and have a good understanding of FSCS values, and
- recognise FSCS's commitment to diversity and recognise that there is equality of opportunities regardless of background

But there was room for improvement, too, and FSCS employees said

- communications between departments and teams could be better,
- they could have more opportunities for learning and development, and
- more could be done to manage career development aspirations

We have developed a list of actions to address these issues

The first FSCS People Awards

In 2011/12 we held our first People Awards to recognise those who truly 'live' our values and deliver for consumers in all parts of the business.

The awards also recognised the contribution that people have made to the organisation's restructure and helping FSCS to respond to the increasing demands placed upon it.

All employees were able to nominate their colleagues anonymously. Award contenders were judged by the Chief Executive and Chairman, along with a representative of FSCS's People Forum.

At the away day held in the autumn, individual awards were made for achievement against each of FSCS's core values: delivery; working together; making a difference; and excellence. There was also a special achievement award. A special team award was presented to the Facilities team.

The individual 'values' award winners were (left to right): Iain Cathcart (excellence); Stephen Magora (making a difference); Terry Mumford (delivery); and Sarah-Jane Savage (working together).

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We are working closely with the FSA and incoming directors of the PRA and FCA to ensure a smooth transition

Equality and diversity

As part of our core value of 'working together', FSCS is committed to equality and diversity, providing an environment where everyone can contribute to our aims regardless of their background

In 2011/12, 78 per cent of employees agreed that FSCS is committed to equality of opportunity for all This represented a 10 per cent increase on the 2010/11 result. We actively monitored our adherence to our policies and delivered training to support it By 31 March 2012, all managers had undertaken equality and diversity training

Skills and training

We implemented a management development and skills programme to ensure that our managers are equipped to support our people to deliver for consumers We also established our core competencies and developed a suite of training solutions that focus on them

This involved spending £195,000 on ongoing training during the year (compared with £108,000 in 2010/11), including a mixture of management skills, technical training and continuing professional development A further £85,000 was spent on training as part of change programme projects and on IT training as part of the transition to updated operating and desktop systems

On average, employees have spent four days in development activities this year All employees completed performance management and PRISM training, while 13 people are undertaking professional development training including relevant diplomas and MBAs, CIMA and ACCA qualifications

People mix in 2011/12

As at 31 March 2012, FSCS staff levels stood at 182 During the year

- 51 people joined FSCS, and
- 49 people left FSCS (including four who were transferred under Transfer of Undertakings (Protection of Employment) (TUPE) Regulations as a result of the organisation restructure)

In a year of restructuring, this gave a people turnover rate of 21 per cent, compared with 9 per cent during 2010/11 and an industry standard of 15 per cent

Employee profile at 31 March 2012

Our employees included 75 women and 107 men (compared with 73 and 107 at 31 March 2011)

- 24 per cent of people were aged 30 or younger, with 16 per cent aged over 50 (compared with 26 per cent and 15 per cent in 2010/11)
- The average age was 38, with the youngest being 21 and the eldest 66 (compared with 38 6, 20 and 65 in 2010/11)

FSCS employee numbers by category

	As at 31 March 2012	As at 31 March 2011
Graduate	8	0
Administration Assistant	24	27
Practitioner Level 1	43	34
Practitioner Level 2	68	72
Head of Function and Managers (or equivalent)	35	43
Chief Executive and other Executive Directors	4	4
Total	**182**	**180**

Comprising:

	As at 31 March 2012	As at 31 March 2011
Operational	179	169
Secondees and other people on maternity or other long-term leave	3	11
Total	**182**	**180**

Ethnic backgrounds

	As at 31 March 2012	As at 31 March 2011
Asian	22	14
Black	17	19
Oriental	5	3
Other	6	5
White	132	139
Total	**182**	**180**

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Our Governance

FSCS is a non-profit-making independent body, accountable to the Financial Services Authority (FSA). The governance of FSCS is the responsibility of the Board of Directors.

The Board of Directors

FSCS was set up under the Financial Services and Markets Act 2000 Under the terms of the Act, the FSA appoints the FSCS Board of Directors on terms which guarantee their operational independence

The Chairman's appointment – and removal – is subject to the approval of HM Treasury The Board is composed of nine non-executive directors and four executive directors

Non-executive directors

David Hall CBE, Chairman
– retired 31 March 2012

David is a member of the Advisory Board of Campbell Lutyens (a specialist advisory investment bank in private equity), and a Non-Executive Director of Ricardo Plc From 1973 to 2000 David worked at Boston Consulting Group, where his roles included Senior Vice President serving on the firm's Worldwide Executive Committee, Chairman Worldwide Financial Services Practice Group, Chairman Global Practice Groups and Chairman Global Human Resources David has an MA in economics from Jesus College Cambridge, and an MSc from London Business School

Lawrence Churchill CBE, Chairman
– appointed 1 April 2012

Lawrence is currently the Chairman of the National Employment Savings Trust and a Non-Executive Director of Bupa He was the first Chairman of the Pension Protection Fund, the statutory compensation scheme for defined benefit pension schemes. In his executive career he was Chief Executive of three insurance operations (NatWest Life, Unum, and Zurich Financial Services – UK, Ireland and International Life) He has served on the boards of the Personal Investment Authority, the Association of British Insurers, where he chaired the Raising Standards Initiative, and the Financial Ombudsman Service He led NatWest Life to the finals of the European Quality Award, a customer-focused award for excellence

John (Max) Taylor, Deputy Chairman – reappointed 1 September 2010

Max retired from insurance broker Aon UK in 2008 Before joining Aon in January 2001, he completed a three-year term as Chairman of Lloyd's, the insurance market. He is Chairman of the Council of the University of Surrey, a director of Qatar Insurance Services and Chairman of both Jubilee Managing Agency Limited and the Mitsui Sumitomo Insurance London Companies

Anthony Ashford – reappointed 1 February 2010

Anthony is currently Chairman of the HSBC Pensions Trust and a Non-Executive Director of AIB (UK) Limited and the Jubilee Sailing Trust. He worked for HSBC from 1985 until 2005, rising to the position of General Manager, Personal Banking and Executive Committee member in 2000 He previously worked for Thomas Cook and the British Steel Corporation

Margaret (Liz) Barclay – appointed 1 July 2011

Liz is currently the writer and presenter of a number of programmes and documentaries for Radio 4, as well as being a personal finance and consumer rights columnist for *The Independent on Sunday* and various magazines She is the author of several business books and runs MoneyAgonyAunt.com, a consumer and personal finance website, and The Bizkit (almacuk.com), a web-based service for small- and medium-sized enterprises Additionally, she is Chair of Camden Citizens Advice Bureau Service, an ambassador for the Money Advice Trust and an honorary member of the Trading Standards Institute

Caroline (Jayne) Nickalls – appointed 1 July 2011

Jayne spent the last six years as Chief Executive of Directgov, leading it from start-up to an established, successful business that is now at the heart of the Government's digital strategy Directgov supports 18 government departments and has links to 240 services Previously she was responsible for the delivery function of Chordiant Software in northern Europe There, she led and managed the delivery of a wide range of enterprise solutions to clients across a number of industries, particularly financial services

Rosalind Reston – reappointed 1 February 2010

A solicitor, authorised insolvency practitioner and accredited mediator, Rosalind is also a Non-Executive Director of Sport Resolutions (UK) and a trustee of Richmond Parish Lands Charity Until 2006 she was a partner at the law firm Lovells, where she worked for 21 years While at Lovells, Rosalind was involved in banking, fraud and insolvency matters and acted for a wide variety of banks and other financial institutions

Robert (Paul) Stockton – appointed 1 December 2011

Paul is currently Group Finance Director at Rathbone Brothers Plc, a FTSE 250 company He has gained exposure to a wide range of financial services businesses throughout his career He has worked in the insurance sector and, in his current role, has gained considerable experience of private client fund management and asset management. Through his work in the industry he has developed a strong understanding of issues relating to financial services, sales, consumer issues, corporate governance and regulatory compliance

Philip Wallace – appointed 1 June 2009

Philip was a chartered accountant at KPMG from 1971 to 2005, finishing as a Vice Chairman and Chairman of the Audit Committee His main specialism was Corporate Recovery, where he was the senior partner responsible for complex restructurings and insolvency Since his retirement, Philip has a number of non-executive roles including the Chairmanship of the Insolvency Services Steering Board, which he took up in 2007

David Weymouth – appointed 1 July 2011

David is Group Director of Operations and Risk at Royal and Sun Alliance and a member of the Group Executive Committee at RSA Insurance He has had a broad-ranging career across a variety of disciplines including operations, change, technology, supply chain and risk management. He was global Chief Information Officer for Barclays Bank from 2000 to 2005 and has a strong delivery track record of major IT-enabled change programmes

Terence (Terry) Connor – retired 31 May 2011

A senior independent Director of New Star Private Equity Trust, Terry is a member of the Legal Services Board and a Trustee of the Africa Educational Trust. He is a strategy consultant for small- and medium-sized enterprises in the media and publishing sectors and began his City career as a media analyst for James Capel & Co and Smith New Court.

Christopher Woodburn – retired 31 May 2011

Christopher served as Chief Executive of the Securities and Futures Authority and Chief Executive of the General Insurance Standards Council He has held various directorships in the financial services industry

Mark (Ivan) Rogers – resigned 31 October 2011

Ivan resigned from the FSCS Board in October 2011 when taking up a position as Senior Adviser on Europe and Global Issues to the Prime Minister Ivan started his career as a civil servant and the posts he held included Principal Private Secretary to former Prime Minister Tony Blair; Private Secretary to former Chancellor of the Exchequer Ken Clarke, and Director of European Policy and Director of Budget and Tax Policy at HM Treasury Ivan joined Citigroup as a Senior Government Banker for the UK in July 2006 and became a member of Citigroup's UK Banking and Broking Board He joined Barclays Capital in early 2010

Alexandra (Sandy) Kinney – retired 31 May 2011

Sandy is a Non-Executive Director and Chairman of Skipton Building Society's Audit Committee, as well as an adviser on risk and performance management to the boards of a number of insurance companies and investment banks She retired from her role as a senior Financial Services Partner at PricewaterhouseCoopers and was previously at KPMG

Executive directors

Mark Neale CB, Chief Executive – appointed 4 May 2010

Before joining FSCS, Mark Neale had a career in public service Between 2005 and 2010 he was Director General at HM Treasury for Budget, Tax and Welfare with responsibility for the development of tax and welfare policy and delivery of the annual Budget and Pre-Budget Report. Before that, he was Director General for Security at the Home Office with responsibility for Counter-terrorism and Organised Crime This included the creation of the Serious Organised Crime Agency and development of the Government's counter-terrorism strategy Mark has also been responsible for welfare reform and child poverty as Director for Children and Housing at the Department for Work and Pensions, and was Finance Director of the Employment Service

Katherine (Kate) Bartlett, Director of Operations – appointed 1 February 2010

Kate began her career working on IT projects in the financial services industry at Andersen Consulting and, subsequently, Cazenove Her career includes 15 years working for UBS in senior roles in service delivery, programme management, IT, change management, contract negotiation and outsourcing

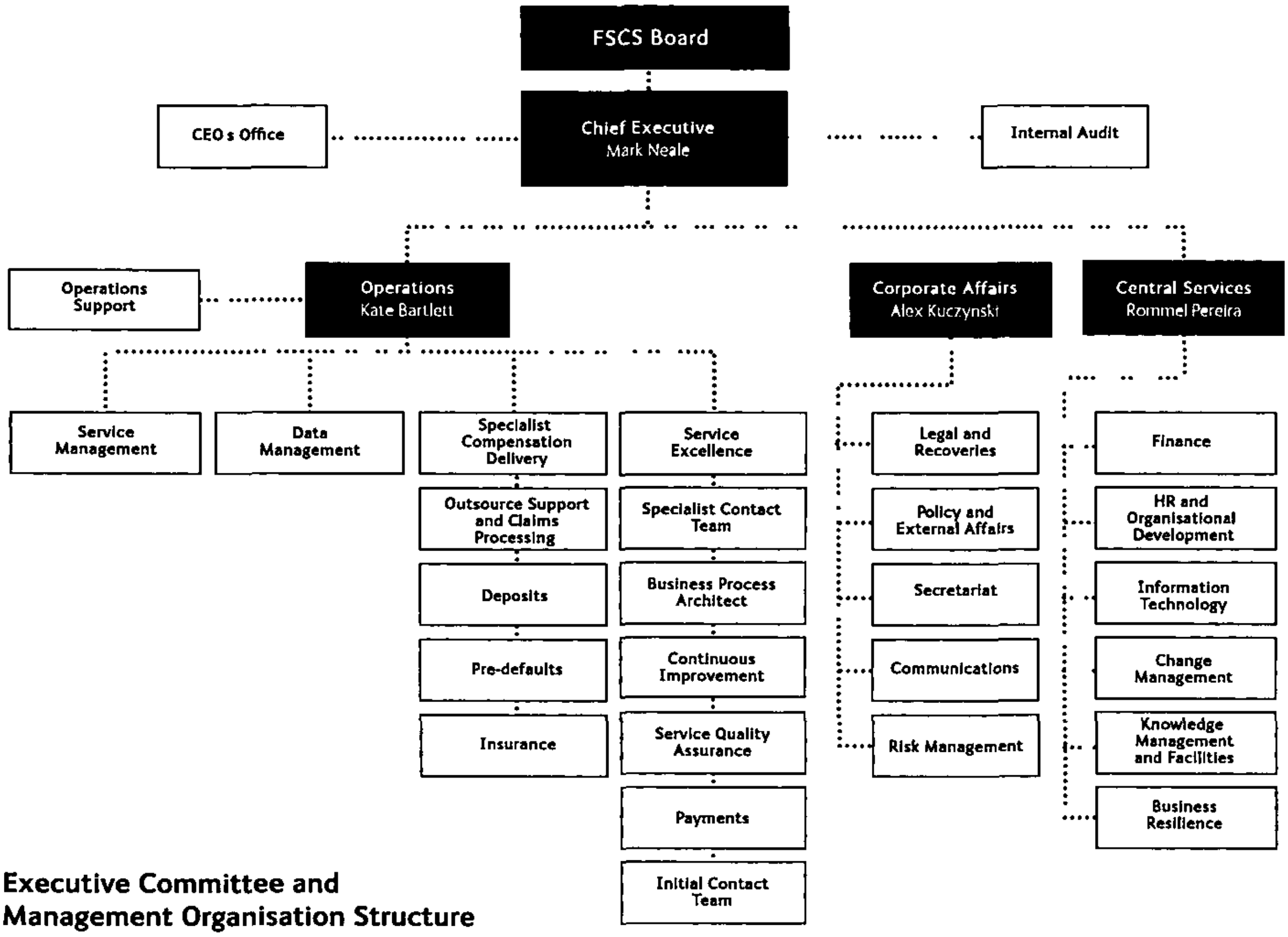
Aleksander (Alex) Kuczynski, Director of Corporate Affairs – appointed 1 February 2010

Alex was previously General Counsel and, before that, Head of Legal at FSCS His role as Director of Corporate Affairs brings together our work in areas that include legal support, risk, communications and policy Having joined from the Investors Compensation Scheme, where he was Head of Legal, Alex acted as Interim Chief Executive for FSCS from March to May 2010 He is the co ordinator of the EU Committee of the European Forum for Deposit Insurers and a member of the Executive Council of the International Association of Deposit Insurers He is also a member of HM Treasury's statutory Banking Liaison Panel

Rommel Pereira, Director of Central Services – appointed 7 September 2010

Rommel most recently worked for the Metropolitan Housing Partnership where he was Group Chief Operating Officer Before that, he worked as an accountant for Ernst & Young, Head of Financial Systems at Reuters, Group IT & Finance Manager at HSBC Midland and in a number of roles at JP Morgan Chase, including Chief Financial Officer, Business Manager, Head of Business Unit and Global Chief Operating Officer

FSCS organisational chart as at 31 March 2012



Executive Committee and Management Organisation Structure

FSCS teams and roles

FSCS is composed of skilled specialist teams, each with a distinct role in helping to deliver our mission and aims

Specialist Compensation Delivery – ensures that compensation is paid to all claimants This includes ensuring that FSCS is prepared for new potential defaults, managing our outsource partners, paying claims dealt with by FSCS and processing faster payouts for deposit claims

Service Excellence – this team has a wide remit, including payment processing, systems and process change, responding to enquiries from claimants and managing contact with MPs, as well as Continuous Improvement and Service Quality Assurance

Service Management – helps FSCS to make timely and effective compensation payments through efficient claims processing

Data Management – develops and delivers necessary data and business intelligence services to support our operational and business functions

Information Technology – develops and maintains the necessary ICT systems and services to support the achievement of FSCS business objectives

Legal and Recoveries – has overall responsibility for providing legal advice on claims for compensation, as well as advising on the practical application of FSCS rules, and recovering money from firms that have been declared in default and third parties

Policy and External Affairs – responsible for policy, including development of FSCS policy and monitoring and responding to external policy proposals The team also manages relationships with FSCS's key stakeholders in the financial services industry, as well as regulators, government bodies and international counterparts

Secretariat – the Secretariat is responsible for managing compliance with corporate standards and the Board and committee processes

Communications – this team's focus is on handling relations with the media and stakeholders and raising awareness of FSCS among its stakeholders, which include authorised financial services firms (who fund FSCS by paying levies when required), consumers and consumer advice workers, journalists, trade bodies, regulators, MPs and government departments

Risk Management – responsible for establishing FSCS's risk strategy and managing, tracking and reporting risks in line with the strategy

Business Resilience – this team is focused on building FSCS's resilience to adapt and respond more rapidly to all types of failures and disruptions They develop contingency plans and test these plans to help FSCS deal with failures more effectively and ensure that we can continue to offer a service to our customers in the event of any disaster

Finance – responsible for all financial and fiscal management aspects of FSCS's operations The team oversees all financial and management accounting and reporting, ensuring compliance with legislation and best practice It is also responsible for overseeing the planning and preparation of annual and long-term budgets Within Finance, the Procurement team is responsible for the acquisition of supplies and services through the whole cycle from identification of needs through to end of contract The team carries out options appraisals and risk assessments before making buying decisions, based on the optimum combination of whole life costs and benefits that meet FSCS's requirements

Human Resources and Organisational Development – provides FSCS with a framework to attract, reward, manage and develop the right capabilities, skills and talents for successful delivery of business challenges

Knowledge Management and Facilities – responsible for a wide range of services, from building facilities to 'soft' services such as office relocations, catering, kitchens, post room and reception duties

Corporate governance

The FSCS Board is committed to high standards of corporate governance In order to ensure best practice, the Board has chosen voluntarily to follow the provisions of the UK Corporate Governance Code issued in June 2010 This section explains how FSCS has applied the main principles of the code and where we have departed from some of the code's provisions

The Board

1 Composition of the Board

The FSCS Board consists of 13 directors, nine of whom are non-executive directors, including the Chairman The four executive directors are the Chief Executive, the Director of Operations, the Director of Central Services and the Director of Corporate Affairs

All directors are appointed by the FSA The appointment – and removal – of the Chairman is also approved by HM Treasury

Although FSCS is not subject to the Commissioner for Public Appointments' Code of Practice, the appointment of FSCS's non-executive directors is made within the spirit of the principles set out in that code, using search consultancies and open advertising

Directors' independence

The biographical details of the directors, which are listed at the start of this section, demonstrate the broad range of experience and expertise they bring to the Board Directors are subject to a conflict of interest policy to prevent any potential interference with the independence of their judgement on Board matters

Subject to any such potential conflicts of interest being declared on individual matters from time to time, all of the non-executive directors are considered to be independent, within the meaning expressed in the Financial Reporting Council's UK Corporate Governance Code, provision B 1 1

Appointments and retirements

Terry Connor, Sandy Kinney and Chris Woodburn retired from the Board on 31 May 2011, having served for six years Ivan Rogers resigned from the Board on 31 October 2011 in order to take up a position in the Prime Minister's Office

The FSA appointed Liz Barclay, Jayne Nickalls and David Weymouth as non-executive directors of FSCS for three years with effect from 1 July 2011, and Paul Stockton as non-executive director of FSCS for three years from 1 December 2011

David Hall CBE retired as FSCS Chairman on 31 March 2012, having served for six years and one month, and was succeeded by Lawrence Churchill CBE, who was appointed by the FSA (with HM Treasury's consent) for three years with effect from 1 April 2012

2 Induction, appraisals, training and development

On appointment, all new directors receive an FSCS-delivered induction This includes a briefing by the Executive and management team on FSCS operations and the various functions within the organisation

New directors also take this opportunity to 'sit in' with some of the claims teams to see, first hand, how claims are processed Claims briefings are also given to existing directors as required to refresh their knowledge of claims practices and explain new or revised processes Similar briefings are given to directors from time to time on other aspects of FSCS operations

Newly appointed directors are also offered training, usually from external providers, on their duties and responsibilities as directors Such training is also offered to the Board on an occasional basis as a way of maintaining and refreshing knowledge in this area

The training is sometimes delivered to individual directors and sometimes to the whole Board in an externally facilitated workshop The last workshop of this type was held in October 2009, and plans are being considered to repeat this exercise for the whole Board in 2012/13

As well as the briefings and training described above, directors keep up to date with developments in the financial services industry The Chairman, Chief Executive and other FSCS officials continued to meet the Tripartite Authorities and trade bodies on a regular basis during the year

Annual performance review

During the year, the Chairman met each of the non-executive directors individually to carry out an annual review of their contribution to the Board This process involved obtaining feedback on directors' performance from all the other directors using an online feedback form

The Chairman's own performance was similarly assessed and his annual review was carried out on behalf of the Board by the Deputy Chairman The Chairman also carried out additional one-to-one discussions with directors during the course of the year to obtain views on Board performance and current issues

3 Operation of the Board

The Board met 13 times during the year A formal schedule of matters reserved to the Board provides a framework for the Board's decision making In accordance with this schedule, the Board is responsible for a number of statutory requirements, primarily deriving from company law and the Financial Services and Markets Act 2000, as well as for governing the strategic direction and the financial operation of FSCS It is responsible for setting policy and ensuring that appropriate internal control measures are in place

Relevant and timely information

The Board believes that it receives and has access to, on a timely basis, the relevant information needed to make appropriate decisions Directors review this on an ongoing basis to ensure that the Board continues to receive sufficient timely, relevant and focused information In 2011/12, further improvements were made to the way in which certain operational and financial information was reported to the Board

The Company Secretary, appointed by the Board, attends all Board and Committee meetings, and is responsible for ensuring that Board procedures are followed and that appropriate records are kept. Directors are permitted to obtain independent professional advice, as required, on any matter that might assist them in carrying out their duties

Review of Board performance

During the year, the Board carried out its annual review of its own performance This Board evaluation exercise included an online feedback form containing a comprehensive set of questions and criteria, with each director invited to comment and make an assessment on the others

The results of this exercise and the implications for the Board were discussed at one of the Board's two strategy days These strategy days also gave the Board the opportunity to review FSCS's key risks and strategic direction

The Board has charged its various committees with certain tasks, including making decisions on its behalf, giving guidance to the Executive and making recommendations to the Board on a range of subjects The current committee framework is discussed below

Committees of the Board

1 Audit Committee

The Audit Committee met three times during the year It currently consists of four non-executive directors The Chairman and Chief Executive normally attend the meetings by invitation

The Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reporting process, the system of internal control and management of risks, the audit process and the company's process for monitoring compliance with laws and regulations

The Committee is responsible for reviewing, and reporting to the Board on, the following key areas

- the annual accounts and accounting policies,
- the financial reporting system,
- the system of internal control,
- risk management,
- the appointment and performance of internal and external auditors,
- the audit processes and results (for both the internal audit and external audit),
- compliance with laws and regulations,
- whistle-blowing arrangements, and
- arrangements for promoting health and safety at work

During the year, the Committee also considered quality assurance reports on claims, internal audit reports, the rolling internal audit programme, the external audit plan, and position papers on a number of matters relating to the production of the financial statements

The Committee also carried out reviews of the effectiveness of both the external audit and internal audit processes, and considered reports on procurement and payment processes, directors' expenses and non-audit work carried out by the external auditors Some of these matters are also reported under 'Internal controls' on page 82

2 Remuneration Committee

The Remuneration Committee met twice during the year The membership of this Committee is made up of four independent non-executive directors The FSCS Chairman is a member of, but may not chair, this Committee

The Committee's role is broadly to consider FSCS's remuneration policies, make recommendations to the Board on the Chief Executive's remuneration package, determine the remuneration package of FSCS's other executive directors, look at remuneration trends across FSCS, and review executive and employee benefit structures

During the year, the Committee looked at the reward and recognition framework and considered proposals for aligning the FSCS bonus scheme with the organisation's performance The Committee also discussed the performance of the executive directors at the mid-year review stage, and approved a revised directors' expenses policy to improve clarity

The remuneration package of the Chief Executive is considered annually by the Remuneration Committee, which makes recommendations to the Board for approval (without the Chief Executive being present)

The Remuneration Committee determines the remuneration of the other executive directors, taking into account comments from the Chief Executive In the case of the executive directors, performance and market data provided by external consultants is taken into account, and remuneration incorporates a performance-related element

Remuneration for non-executive directors is determined by the FSA, and is described under 'Directors' remuneration' on page 85

3 Nomination Committee

The Nomination Committee is made up of the FSCS Chairman, Chief Executive and two independent non-executive directors

The Committee's role is to review the structure, size and composition of the Board (including the balance of skills, knowledge and experience) and make recommendations to the FSA with regard to any changes It also reviews succession planning for both executive and non-executive directors, ensures that there is appropriate liaison with the FSA with regard to appointments and reappointments of Board members, and keeps the membership of the Board Committees under review

This Committee met once formally during the year, although there were a number of other meetings involving Committee members as part of the recruitment process for appointing non-executive directors to the Board

Four non-executive directors were appointed during the year, and a new Chairman was appointed with effect from 1 April 2012 – see 'Composition of the Board' on page 75 As well as these appointments, the Committee considered matters relating to succession planning and proposals for appointing a new independent Trustee Chairman of the final salary pension scheme

4 Contingencies Planning Committee

The membership of this Committee is currently made up of four non-executive directors (one of whom is the Chairman) and two executive directors (the Director of Operations and the Director of Central Services)

The Committee's role is to review and provide input to the Executive's work on FSCS's contingency planning This includes putting plans in place for responding to major business failures and disaster recovery, so that FSCS can demonstrate its ability to ensure business continuity in extreme circumstances

This Committee met three times during the year It looked at the development of FSCS's various contingency plans, and reviewed lessons learned from a number of simulation and testing exercises The Committee also considered FSCS's disaster recovery arrangements and reviewed its terms of reference

5 Claims Decisions Committee

The Claims Decisions Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues referred to it by the Executive It consists of three directors the Chief Executive and any two non-executive directors There were no cases referred to this Committee during the year

Working parties

As well as the formal Board committees, ad hoc Board working parties are set up as required to deal with specific issues

Committee membership

Committee membership (as at 31 March 2012)	Audit Committee	Remuneration Committee	Nomination Committee	Contingencies Planning Committee
Non-executive directors:				
Anthony Ashford			X	•
Margaret (Liz) Barclay				X
David Hall CBE* *(retired 31 March 2012)*		X	•	
Caroline (Jayne) Nickalls		X		X
Rosalind Reston	X		X	
Robert (Paul) Stockton	X			
John (Max) Taylor	X	•		
Philip Wallace	•	X		
David Weymouth				X
Executive directors:				
Kate Bartlett				X
Alex Kuczynski				
Mark Neale			X	
Rommel Pereira				X

• = Committee Chairman
* Lawrence Churchill joined as Chairman on 1 April 2012

Attendance at Board and Committee meetings

This table shows the directors' attendance at Board and Committee meetings during the year, together with their dates of appointment and expiry of term

	Board	AudCo	RemCo	NomCo	CPCo	Appointment date	Expiry of term
Number of meetings held:	13	3	2	1	3		
Non-executive directors:							
Anthony Ashford	13/13			1/1	3/3	1 Feb 2007	(renewed on 1 Feb 2010) 31 Jan 2013
Margaret (Liz) Barclay	9/9				1/1	1 Jul 2011	30 Jun 2014
Terence (Terry) Connor	2/2					1 Jun 2005	*Retired 31 May 2011*
David Hall	13/13		2/2	1/1		1 Mar 2006	*Retired 31 Mar 2012*
Alexandra (Sandy) Kinney	1/2					1 Jun 2005	*Retired 31 May 2011*
Caroline (Jayne) Nickalls	9/9		1/1		1/1	1 Jul 2011	30 Jun 2014
Rosalind Reston	13/13	3/3		1/1		1 Feb 2007	(renewed on 1 Feb 2010) 31 Jan 2013
Mark (Ivan) Rogers	5/7				2/2	1 Jun 2009	*Resigned 31 Oct 2011*
Robert (Paul) Stockton	4/5	1/1				1 Dec 2011	30 Nov 2014
John (Max) Taylor	11/13	3/3	2/2			1 Sep 2007	*(renewed on 1 Sep 2010)* 31 Aug 2013
Philip Wallace	13/13	3/3	1/2			1 Jun 2009	31 May 2012
David Weymouth	8/9				1/1	1 Jul 2011	30 Jun 2014
Christopher Woodburn	1/2	0/1				1 Jun 2005	*Retired 31 May 2011*
Executive directors							
Katherine (Kate) Bartlett	12/13				3/3	1 Feb 2010	31 Jan 2013
Aleksander (Alex) Kuczynski	11/13					1 Feb 2010	31 Jan 2013
Mark Neale	13/13			1/1		4 May 2010	3 May 2013
Rommel Pereira	11/13				3/3	7 Sep 2010	6 Sep 2013

AudCo – Audit Committee RemCo – Remuneration Committee NomCo – Nomination Committee
CPCo – Contingencies Planning Committee

Note Rosalind Reston and Terence Connor are also Trustees of the FSCS Pension Scheme There were three formal trustee meetings during the year

Internal controls

The Board recognises that a sound system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss

The main components of FSCS's system of control are

- clear lines of responsibility and delegated authority throughout the organisation,
- management of controls using a standard 'three lines of defence' approach,
- Board-approved operational policies supported by documented company-wide procedures, including the formal recording of risks and associated mitigations in the Risk Register;
- the work of the auditors (both internal and external), and
- regular monitoring of performance against plans and targets by management

The arrangements for internal control have been in place throughout the year and are kept under regular review by the Board

The Board also regularly reviews FSCS's performance against its Plan and Budget, and receives monthly operational and financial reports, including budgets and forecasts, as well as reports from the Board's committees

Furthermore, to satisfy itself that there are appropriate controls throughout the organisation, the Board also receives reports from the Audit Committee on, among other things

- the internal and external audit functions,
- the procedures for the assessment and management of risks, and
- FSCS's internal controls (which include financial, operational and compliance controls)

Reviewing our controls

These examples illustrate the additional work that FSCS has carried out during the period covered by the Annual Report and Accounts in order to satisfy itself that there are appropriate controls throughout the organisation

1 The Audit Committee has continued to review the process by which risks are managed and monitored FSCS's Risk Register, which identifies and prioritises key risks to the organisation and highlights the relevant controls for each risk area, was further refined during the year This is treated as a continuous process, with the Risk Register changing over time in line with changes in FSCS's priorities, activities and exposure to risk

   The Risk Register continued to be reviewed and updated monthly by the Executive Committee (the executive directors), and is considered by the Audit Committee at each meeting The Executive Committee also carried out 'deep dives' into risks associated with certain processes and FSCS-wide issues The Audit Committee reports to the Board after each committee meeting and, as a matter of good practice, the Board itself considers the Risk Register twice a year

2 The Head of Risk attends all Audit Committee meetings and those Board meetings at which risk issues are discussed This is in order to present reports and satisfy Board and committee members that risks and controls are being appropriately managed by the Executive and management of the company The risk management function is also subject to internal audit.

3 The Audit Committee continued to ensure that the internal audit programme is aligned to FSCS's risk assessment work, and that internal audit reports are linked to the relevant risks identified in the Risk Register

4 The Audit Committee received a report on the quality assurance (QA) reviews of claims These QA reviews identify issues to be considered further in order to establish whether any improvements could be made or remedial measures put in place

5 FSCS's internal auditors continued to conduct reviews and provide reports on various aspects of FSCS's work as part of their annual programme and in response to events during the year The Head of Internal Audit oversees this work, while the Audit Committee considers these reviews and reports to the Board on them and the resulting internal audit plan During the year, the Audit Committee has considered internal audit reports on

- recoveries,
- compensation payments,
- claims handling and workflow,
- IT general control environment and data management,
- levy and expense allocation (including treasury),
- procurement,
- faster payout,
- project management, and
- project management review – business intelligence/data warehousing

The internal auditors carried out reviews in accordance with an agreed rolling programme, with management following up the agreed recommendations The Audit Committee has considered where significant control weaknesses have been identified by the internal auditors so that these can be addressed and remedied The internal auditors also reported on follow-up work from recommendations made in previous internal audit reports

6 An annual report was submitted to the Audit Committee on any non-audit work carried out by the external auditors In 2011/12, the external auditors carried out some non-audit services for FSCS, and confirmation was received of the external auditors' objectivity and independence in respect of this work in line with FSCS policy

Principal risks and uncertainties are covered separately in the Directors' Report and Accounts, and information on business risk is covered in Section 7

Financial risk management

FSCS's operations carry a variety of financial risks that include treasury risk and the effects of credit, liquidity, interest rate and currency risks The principal financial instruments comprise HM Treasury loan arrangements, bank overdrafts and loan facilities, cash and short-term money market deposits

Other instruments, such as trade receivables and trade payables, arise directly from operations, but FSCS holds no financial derivatives Related risks are managed in accordance with Board-approved policies that are closely monitored, regularly reviewed and, where appropriate, externally benchmarked

Throughout the year, monies were placed mainly with the Bank of England FSCS maintains a balance between readily available funds to meet cash flow requirements and flexibility in placing money-market deposits over periods not exceeding six months

HM Treasury borrowing facilities and commercial bank overdrafts, loan facilities and finance leases are also available for use Given FSCS's funding arrangements, interest rate risk is presently considered to be low, and no instruments are currently in place to further mitigate any such risk

Where liabilities arise in a currency other than Sterling, these are covered by equivalent currency deposits, placed on terms that conform to Board-approved policies It is FSCS policy not to engage in speculative transactions of any kind

Directors' remuneration

Non-executive directors' fees are reviewed and set by the FSA The Remuneration Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval The Chief Executive is not present when this remuneration package is being considered The remuneration packages of the other executive directors are determined by the Remuneration Committee Remuneration details of directors are given in the Directors' Report and Accounts on page 113

Compliance with the UK Corporate Governance Code

FSCS has complied throughout the period covered by this report with the relevant provisions set out in the UK Corporate Governance Code (the Code), with the exception of the following

- A 4 1 (senior independent director),
- D 2 2 (remuneration for the Chairman), and
- D 2 3 (remuneration for non-executive directors)

A.4 1: The Code recommends that one of the independent non-executive directors should be appointed to be the senior independent director to provide a sounding board for the Chairman and to serve as an intermediary for other directors when necessary

The Board revisits this issue periodically, the most recent review being in 2010, and remains of the view that the present Board structure adequately meets the needs of directors without appointing a senior independent director

However, the Board did agree to appoint a Deputy Chairman While not being a senior independent director within the meaning set out in the Code, the Deputy Chairman will be expected to take the chair at Board meetings in the absence of the Chairman and carry out the performance evaluation of the Chairman on behalf of the Board

D 2 2/D 2 3· Under the terms of its constitution, FSCS cannot set remuneration for its Chairman and non-executive directors This is done by the FSA, with appropriate input from FSCS

List of acronyms

BAU – business as usual

B&B – Bradford & Bingley Plc

CIS – Collective Investment Schemes

CMC – claims management company

COMP – the FSA's Compensation Handbook, containing rules on FSCS levies and eligibility for compensation

DBS – Dunfermline Building Society

DIGF – Icelandic Depositors' and Investors' Guarantee Fund

FCA – Financial Conduct Authority

FRS – Financial Reporting Standard

FSA – Financial Services Authority

FSCS – Financial Services Compensation Scheme

FSMA – Financial Services and Markets Act 2000

IFA – Independent Financial Adviser

ISA – Individual Savings Account

KSF – Kaupthing Singer & Friedlander Limited

LIBOR – London Inter-Bank Offered Rate, i e the interest rate that the banks charge one another for loans

MELL – Management Expenses Levy Limit

PPF – Pension Protection Fund

PPI – Payment Protection Insurance

PRA – Prudential Regulation Authority

QA – quality assurance

SDDs* – Specified Deposit Defaults

SRR – Special Resolution Regime

UKFI – UK Financial Investments Limited

* SDDs are also referred to in this report as the major banking failures of 2008/09 These are the five specified major bank defaults from 2008/09, which resulted in FSCS compensation Bradford & Bingley Plc, Landsbanki Islands hf (Icesave), Heritable Bank Plc, Kaupthing Singer & Friedlander Limited, and London Scottish Bank Plc

9

Directors' Report and Accounts

The directors of Financial Services Compensation Scheme Limited (FSCS) present their 12th report, together with the audited financial statements of FSCS (on pages 97 to 126) and its classes and sub-classes (on pages 127 to 139) for the year ended 31 March 2012.

Principal activities

FSCS was established as the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA), to administer a single compensation scheme for consumers in respect of regulated financial services activities, should an authorised financial services firm be unable, or likely to be unable, to meet its liabilities FSCS assumed its responsibilities at midnight on 30 November 2001 (a date referred to as N2), when the FSMA came into force, and has fulfilled those responsibilities throughout the year ended 31 March 2012

Review of activities and performance

Since receiving its powers under the FSMA and the integration of the former compensation schemes at N2, FSCS has continued to fulfil its responsibilities throughout the year The Annual Report includes commentary on FSCS's key performance indicators as described in Section 4

Future outlook

Further matters relating to FSCS's future outlook are referred to in Section 3, Section 5 and Section 7, including the importance for FSCS of remaining independent, increasing involvement in resolution planning and arrangements, and increasing awareness of FSCS

Principal risks and uncertainties

The principal external risks to FSCS arise from the global financial markets and UK economic outlook and market conditions for firms, which in turn affect the financing of compensation costs, recoveries and FSCS's operations, particularly resourcing through staff and outsourcers These issues are referred to in the Annual Report, in particular in the Chairman's Statement and the Chief Executive's Report and within the management of principal risks and uncertainties

The principal risks and uncertainties identified in the financial statements are

- funding of borrowings which are referred to in Note 16,
- recoveries through dividends from the estates of the Specified Deposit Defaults, as explained in Note 16 and in Section 6,
- the net costs of the failure of Dunfermline Building Society, as explained in Note 16 and in Section 6, and
- the levy provision referred to in Note 17

Business review

FSCS's results show an excess of income over expenditure of £1,154,000 (2011 £355,000), as shown on page 97, and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £1,925,000 (2011 £506,000 loss) in the Statement of Total Recognised Gains and Losses A more detailed review of the performance of FSCS can be found in Section 6 Administration expenses and interest payable of £434,787,000 (2011 £391,851,000) in the year include a net credit of £972,000 being the defined benefit pension scheme contributions of £965,000 less the current service cost of £375,000 plus a curtailment gain of £382,000 (see Note 6) (2011 £247,000, £1,139,000, £892,000 and £nil respectively)

Operating income comprises the gross amount of management expenses and interest payable recoverable from FSCS's classes and sub-classes and, for base costs, firms within the Financial Services Authority (FSA) fee blocks (see Note 10) of £435,759,000 (2011 £392,098,000)

During the year FSCS refinanced the loan facilities agreed with HM Treasury for each of the Specified Deposit Defaults with effect from 1 April 2012 FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default The loans have target repayment dates of 31 March 2024 for Bradford & Bingley and 31 March 2016 for the remainder FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks

Under the terms of the refinanced loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated at 12-month LIBOR plus 100 basis points (previously 12-month LIBOR plus 30 basis points), adjusted monthly This rate will be subject to a floor equal to HM Treasury's own cost of borrowing as represented by the gilt rate for borrowing of an equivalent duration There will be an annual cap on the amount of interest that the deposit takers will have to pay through FSCS levies This cap will be set on the advice of the FSA (and in due course the Prudential Regulation Authority (PRA)) and take into account what the deposit-taking sector can afford having regard to other FSCS and regulatory commitments Any interest charges exceeding the annual cap will be capitalised and repaid from future levies on deposit takers

In December 2011 FSCS entered into a £1bn revolving syndicated loan facility at a floating rate of interest linked to LIBOR This facility replaced the previous facilities totalling £150m, comprising a 364-day Sterling revolving credit facility of £75m and a three-month Sterling-dealing line facility of £75m, both at a floating rate of interest linked to LIBOR

Subsequent to the issue of interim levy invoices in 2010/11 to firms in the Investment Intermediation and Investment Fund Management sub-classes totalling £325,051,000, a number of firms have applied for a reduction of the amount levied due to mistakes in the tariff data submitted by them to the FSA These claims total £86,024,000 As at 31 March 2012, claims totalling £52,100,000 had been accepted and credit notes raised Based on the best information available to the directors a provision for £3,190,000 (2011 £30,000,000) has been made in the accounts for further credit notes to be raised (see Notes 3 and 17)

It became apparent to FSCS during the levy review process that firms in the Investment Fund Management sub-class were reporting income relating to Collective Investment Schemes (CIS) on an inconsistent basis Following advice from Leading Counsel as to the correct interpretation of the tariff data measure for income from CIS, FSCS is aware that some firms may have reported this income incorrectly and wish to apply to restate their relevant income, despite the expiry on 31 March 2012 of the two-year period in which to do so for the 2010/11 year Despite this, where firms mistakenly reported CIS income which they wish to revise, but did not apply to restate within that two-year period, FSCS proposes to invite firms to do so within a set timescale, outside the two-year period, say, by end August, with reasons These further applications would need to be resolved before the 'truing up' can be completed Applications to restate will only be considered where the firm's failure to apply within the two-year period was caused by the error of the FSA or FSCS The usual requirements in FEES 2 3 will then apply to determine whether remission should be granted

FSCS is unable to quantify the potential value of this issue for the levy restatement process as CIS income is not separately recorded by the FSA when firms submit their tariff data As a reliable estimate of the provision cannot be made, as per FRS 12 a contingent liability has been disclosed (see Note 26 – Contingencies) However, any consequent financial impact of re-submission requests accepted will be re-levied in 2012/13 from the remainder of the Investment Fund Management sub-class population as part of the 'truing up' exercise and so there will be a zero net overall financial effect for the Scheme Manager and the classes and sub-classes

Following the default of Welcome Financial Services Limited (Welcome), its restructuring arrangements provide for it to make payments to FSCS to fund compensation payments and associated costs £53,720,000 (2011 £50,000,000) of this sum was received during the financial year Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome Compensation costs during the year amounted to £41,438,000 (2011 £nil) and related management expenses since the default amounted to £7,370,000 (2011 £824,000) Additional costs totalling £198,000 were incurred prior to the default and separately recovered from Welcome The remaining £54,088,000 (2011 £49,176,000) is shown in the Balance Sheet of the Scheme Manager as in 'Creditors amounts falling due within one year' since any excess payments will be repaid to Welcome (see Note 15) Cash at bank (see Note 14) includes £52,972,000 (2011 £49,176,000) received from Welcome This sum is ring-fenced and can only be used to pay costs relating to Welcome Compensation costs are shown in the Classes and Sub-classes Accounts only and the costs associated with the handling of claims are shown in the Scheme Manager Income and Expenditure Account under administrative expenses and are recovered from the Insurance Intermediation sub-class An equivalent amount is then released from the Scheme Manager to the sub-class to fund these costs

The provision brought forward from last year of £455,000,000 relating to Dunfermline Building Society has been increased to £505,000,000 based on the best information available to the directors, to include interest accrued during the year on the balance owing to HM Treasury However, the final outcome may be different and the final amounts, once agreed, may potentially result in a material adjustment to the provision being required (see Notes 3 and 17)

During the year, FSCS made recoveries of £853,912,000 from the 2008 banking defaults and this was set off against loans (see Note 16) A further £67,852,000 was due at 31 March 2012 (see Note 13) The loans continue to accrue interest with £370,166,000 charged during the year (see Note 16) This amount will be levied to firms in the Deposit class before 1 September 2012

A more detailed review of the performance of FSCS can be found in Section 6

Fixed assets

The movements in fixed assets during the year are set out in Note 12 of the financial statements

The directors

The directors of the company who were in office during the year and up to the date of signing the financial statements, all of whom are non-executive unless stated, were as follows

Anthony Ashford
Margaret (Liz) Barclay Appointed 1 July 2011
Katherine (Kate) Bartlett – Executive Director
Terence (Terry) Connor Retired 31 May 2011
David Hall (Chairman) Retired 31 March 2012

Alexandra (Sandy) Kinney Retired 31 May 2011
Aleksander (Alex) Kuczynski – Executive Director
Mark Neale – Chief Executive and Executive Director
Caroline (Jayne) Nickalls Appointed 1 July 2011
Rommel Pereira – Executive Director
Rosalind Reston
Mark (Ivan) Rogers Resigned 31 October 2011
Robert (Paul) Stockton Appointed 1 December 2011
John (Max) Taylor
Philip Wallace
David Weymouth Appointed 1 July 2011
Christopher Woodburn Retired 31 May 2011

Since 31 March 2012, Lawrence Churchill was appointed non-executive Chairman with effect from 1 April 2012

Directors' emoluments

Details of directors' emoluments are shown in Note 7

Liability insurance

FSCS maintains insurance to indemnify itself, its directors and its officers against claims arising from its operations

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared 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 of the income or expenditure of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,

- state whether applicable 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained in Section 8

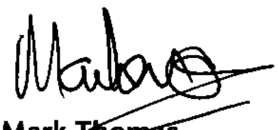
Going concern

The directors are satisfied that FSCS is in a position to meet its obligations as they fall due As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be put to the company

By order of the Board



Mark Thomas
Company Secretary
19 June 2012

Report of the Auditors

Independent Auditors' Report to the Members of Financial Services Compensation Scheme Limited

We have audited the financial statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2012, which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes 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)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 93–94, 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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its results and cash flows 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

Matters on which we are required to report by exception

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

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

Jeremy Jensen

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 June 2012

Financial Statements of the Scheme Manager for the year ended 31 March 2012

Income and Expenditure Account

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Administrative expenses	4	(64,621)	(57,401)
Interest payable	8	(370,166)	(334,450)
		(434,787)	(391,851)
Operating income, comprising		435,941	392,206
Interest receivable and other income	9	182	108
Management expenses recoverable			
From classes and sub-classes	10	42,409	30,923
In respect of base costs	10	23,184	26,725
Interest payable recoverable			
From classes and sub-classes	10	370,166	334,420
In respect of base costs	10	–	30
Excess of income over expenditure before tax		**1,154**	**355**
Excess of income over expenditure after tax		**1,154**	**355**

All of FSCS's operations are continuing There is no difference between the gains and losses included above and those prepared under the historical cost basis

Statement of Total Recognised Gains and Losses

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Excess of income over expenditure		1,154	355
Actuarial loss on pension scheme liabilities	6	(1,925)	(506)
Total recognised loss relating to the year		**(771)**	**(151)**

The notes on pages 100 to 126 form part of these financial statements

Balance Sheet of the Scheme Manager as at 31 March 2012

	Note	2012 £'000	2011 £'000
Fixed assets	12	**687**	**1,405**
Current assets			
Debtors amounts falling due within one year	13	523,376	612,046
Cash at bank and short-term deposits	14	114,029	218,676
Debtors amounts falling due after more than one year	13	18,408,060	19,016,690
Total current assets		**19,045,465**	**19,847,412**
Creditors amounts falling due within one year			
Bank overdraft	14	–	(1,203)
Creditors and accruals	15	(213,110)	(227,389)
Loan interest payable	16	(370,166)	(334,414)
Total current liabilities		**(583,276)**	**(563,006)**
Net current assets		**18,462,189**	**19,284,406**
Total assets less current liabilities		**18,462,876**	**19,285,811**
Creditors amounts falling due after more than one year			
Loans	15	(17,954,032)	(18,805,265)
Provisions for liabilities and charges	17	(508,844)	(480,546)
Total creditors amounts falling due after more than one year		**(18,462,876)**	**(19,285,811)**
Total net assets excluding pension liability		–	–
Pension liability	6	(3,622)	(2,851)
Total net liabilities including pension liability		**(3,622)**	**(2,851)**
Reserves	19	**(3,622)**	**(2,851)**

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited on 19 June 2012

L Churchill

Lawrence Churchill
Chairman

The notes on pages 100 to 126 form part of these financial statements

Statement of Cash Flows of the Scheme Manager for the year ended 31 March 2012

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Net cash inflow from operating activities	20	1,082,294	1,103,639
Returns on investments and servicing of finance	21	(334,414)	(382,849)
		747,880	**720,790**
Capital expenditure			
Payments to acquire tangible fixed assets	12	(91)	(547)
Net cash outflow from investing activities		**(91)**	**(547)**
Financing activities			
Decrease in loans	22	(851,233)	(519,477)
Net cash inflow from financing activities		**(851,233)**	**(519,477)**
(Decrease)/increase in cash	23	**(103,444)**	**200,766**

Notes to the Financial Statements for the Scheme Manager for the year ended 31 March 2012

1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company limited by guarantee The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member FSCS has no share capital and no ultimate controlling party

FSCS was established as the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA) Its full powers were assumed following the coming into force of powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001 FSCS, as Scheme Manager, operates five broad funding classes based on identifiable industry sectors – Deposit, General Insurance, Life and Pensions, Investment and Home Finance Each broad class is divided into two sub-classes along provider and intermediation lines, with the exception of the Deposit class

2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, UK Generally Accepted Accounting Principles, and the COMP section and FEES manual of the FSA Handbook, on a going concern basis As shown in the Balance Sheet, FSCS has negative reserves and an excess of liabilities over assets that arise due to the inclusion of the pension liability in relation to the FSCS pension scheme valued in accordance with the principles set out in Financial Reporting Standard (FRS) 17 However, the directors are satisfied that FSCS is in a position to meet its obligations as they fall due As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention

The financial statements presented here are those of FSCS and do not consolidate or otherwise include the classes and sub-classes except insofar as the classes and sub-classes transactions give rise to an obligation of or to FSCS itself The FEES manual requires FSCS to keep accounts which show the funds held to the credit of each broad class and sub-class and the liabilities of that broad class and sub-class These accounts are set out on pages 127 to 139

The principal accounting policies are set out below

a) Administrative expenses

These costs are included in the Income and Expenditure Account on an accruals basis

b) Pension scheme

FSCS operates both a defined benefit pension scheme (the Scheme) and a money purchase scheme The aggregate pension scheme asset/liability recognised in the Balance Sheet is the excess or deficit of the present value of the Scheme's assets over the value of the Scheme's liabilities The deficit will be funded by future levies Further details are contained in Note 6

Money purchase scheme

The costs of the money purchase scheme are charged to the Income and Expenditure Account as incurred

Defined benefit scheme

The pension costs for the defined benefit scheme are analysed as follows

- Current service cost
  Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period This item is recognised as an expense in the Income and Expenditure Account

- Past service costs

  Past service costs comprise costs relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, and are recognised in the Income and Expenditure Account on a straight-line basis over the period in which the increase in benefits vest. Any such items would be recognised as an expense in the Income and Expenditure Account

- Settlements or curtailments

  Settlements or curtailments are recognised in the Income and Expenditure Account to the extent that they are not allowed for in the actuarial assumptions Losses on settlements or curtailments are measured at the date on which the employer becomes demonstrably committed to the transaction Gains on settlements or curtailments are measured at the date on which all parties whose consent is required are irrevocably committed

- Net expected return on the pension assets

  Net expected return on the pension assets comprises the expected return on the Scheme assets less interest on Scheme liabilities This item is recognised in the Income and Expenditure Account

- Actuarial gains and losses

  The actual return less expected return on Scheme assets and actuarial gains/losses net of tax which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Balance Sheet date are shown in the Statement of Total Recognised Gains and Losses

c) Operating leases

Rentals on assets held under operating leases are charged to the Income and Expenditure Account in equal annual amounts during the term of the lease

d) Interest payable

Loan interest payable is charged to the Income and Expenditure Account in the period according to the terms of the loans, as described in Note 16

Interest to reflect the time value of money on any Balancing Payment adjustment on deemed compensation is accrued in the period to which it relates

e) Revenue recognition

Operating income includes management expenses and interest payable recoverable from classes and sub-classes and in respect of base costs Management expenses comprise base costs, being the costs of running the classes and sub-classes, specific costs, which are the remaining costs which cover the handling and payment of compensation claims, and loan interest payable Management expenses and interest payable are recoverable from the FSA fee blocks for base costs and classes and sub-classes for specific costs, by which they are levied

f) Interest receivable

Interest received on cash deposits is credited to the classes or sub-classes in proportion to their relative fund balance

g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the Balance Sheet date All differences are charged to the classes and sub-classes

h) Levies, compensation costs and other items handled on behalf of the classes and sub-classes

The Scheme Manager is funded by levies on firms authorised by the FSA It raises levies, on behalf of the classes and sub-classes, which are accounted for in the Balance Sheet of the Scheme Manager on an accruals basis but credited to the classes and sub-classes on a cash received basis Levies to be refunded are provided for in the Scheme Manager but accounted for on payment in the classes and sub-classes Where requests for the remission or rebate of a levy have been received, a provision is only made in the Scheme Manager where a reliable estimate can be made of the amount and it is considered probable that a payment will be made The levy relating to the base cost element of the management expenses has been credited to the relevant FSA fee block Under the FEES rules, once a sub-class reaches its annual compensation costs levy limit, the connected sub-class in the broad class (the 'receiving sub-class') is required to contribute to any further compensation costs levy (again up to an annual limit) Levies received during the year from a receiving sub-class are shown as levies received in the sub-class accounts of the receiving sub-class, together with a corresponding transfer out to the connected sub-class

The Scheme Manager's costs are made up of compensation payments and management expenses (see Note 1(b) and (d) of the Classes and Sub-classes Accounts) The Scheme Manager makes compensation payments on behalf of the classes and sub-classes, which are only shown in the Classes and Sub-classes Accounts Compensation offers are accrued at the Balance Sheet date if they are due and have been made, accepted and, for reinstatement cases, fully valued Reinstatement cases are claims where compensation is paid to reinstate a claimant into an occupational pension scheme that the claimant was wrongly advised to opt out of, not join, or transfer away from The amount of compensation cannot be determined until the cost of reinstatement and the value of the relevant personal pension are both known

FSCS has made payments referred to as deemed compensation under Parliamentary Orders The liability is incurred on the Order date, and adjusted for Balancing Payments made between the parties and updated as further information is received

Recoveries notified before the year end in respect of dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries but not received by that date, are accrued by FSCS and reflected as amounts payable to the relevant class or sub-class in accordance with the FSMA and the FEES manual

Management expenses comprise base costs, being the costs of running the classes and sub-classes, specific costs, which are the remaining costs which cover the handling and payment of compensation claims, and loan interest payable The specific costs are allocated by FSCS to each class or sub-class in accordance with the principles contained within the FEES manual The base costs are not allocated to classes or sub-classes but are shown against the FSA fee blocks by which they are levied

i) Third party arrangements as agent

FSCS works for and makes compensation payments on behalf of third parties, as agent, these are recoverable from such parties Any amounts so due from third parties are shown in the Balance Sheet

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by FSCS and not allocated to the classes or sub-classes or funded by levy payers

j) Fixed assets

Fixed assets are capitalised and depreciated over their estimated useful lives at the following rate

- computers 60 per cent per annum (reducing balance basis),
- furniture and equipment 33⅓ per cent per annum (reducing balance basis), and
- leasehold improvements straight-line basis over the periods of the leases, commencing on occupancy

Expenditure on computer software is written off when incurred

k) Loans

Loans are initially stated at the fair value amount of the consideration received

Interest is charged to the Income and Expenditure Account over the term of the borrowings Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans

l) Provisions, legal challenges and costs

A provision is recognised in the Balance Sheet when there is a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability No provision is established where a reliable estimate of the obligation cannot be made

On occasion, legal proceedings are threatened or initiated against or by FSCS Provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is more likely than not that there is an obligation which will require an outflow of economic benefits

m) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the Tripartite Authorities a statutory framework providing tools for dealing with distressed banks and building societies Under the Act and its regulations, FSCS may be required to contribute to the costs of the SRR, but no more than the cost that FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout. Any such costs, although initially obligations on FSCS as Scheme Manager, are recoverable from the classes or sub-classes and will be funded through levies The Scheme Manager's obligation is accounted for in accordance with FRS 12 as set out above and a provision recognised when it is probable that an economic outflow will be required and the outflow can be measured reliably, otherwise, such amounts are disclosed as a contingency

n) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011 Welcome sold a substantial number of Payment Protection Insurance policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome Such payments are shown in the Balance Sheet of the Scheme Manager as an asset and in 'Creditors amounts falling due within one year' since any excess payments will ultimately be repaid to Welcome Compensation costs and recoveries are shown in the Classes and Sub-classes Accounts only and ultimately the costs associated with the handling of claims are shown in the Scheme Manager Income and Expenditure Account under administrative expenses and are recovered from the General Insurance Intermediation sub-class An equivalent amount is then released from the Scheme Manager to the sub-class to fund these costs

3 Accounting judgements and key estimation uncertainties

As identified in the Directors' Report within the section on 'Principal risks and uncertainties', there are a number of matters of estimation and uncertainty In applying the accounting policies as set out in Note 2, those uncertainties could impact on the amounts recognised in the financial statements

As explained in Note 16, FSCS refinanced the loans with HM Treasury relating to the Specified Deposit Defaults with effect from 1 April 2012 FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default The loans have target repayment dates of 31 March 2024 for Bradford & Bingley and 31 March 2016 for the remainder The expected timing of repayments from the estates of each default remains uncertain but FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks

Following notice served by HM Treasury, FSCS has an obligation to contribute to the net costs of resolution of Dunfermline Building Society (DBS), including interest, but after recoveries, which will be discharged through levies The FSCS figure for the total amount of the protected deposits, less the valuation of the total FSCS recoveries, in insolvency, will provide the cap on the FSCS contribution HM Treasury appointed an independent valuer to work out what recoveries FSCS would have received had there been a payout by FSCS to DBS's approximately 260,000 depositors in the event of insolvency The valuer has yet to report Based on the best information available to the directors, the brought forward provision has been increased by £50,000,000 in the financial statements for the year ended 31 March 2012 to include interest accrued during the year on the balance owing to HM Treasury However, the final outcome may be different and the final amounts, once agreed, may potentially result in a material adjustment to the provision being required (see Note 17) It is, however, unlikely to exceed £1 12bn, the current estimated cost of the resolution When FSCS is notified by HM Treasury of the final contribution required, the creditor amount will be updated accordingly and the corresponding change made to the compensation cost

Subsequent to the issue of interim levy invoices in 2010/11 to firms in the Investment Fund Management and Investment Intermediation sub-classes totalling £325,051,000, a number of firms have applied for a reduction of the amount levied due to errors in the tariff data submitted by them to the FSA These claims total £86,024,000 (2011 £79,993,000) As at 31 March 2012, claims totalling £52,100,000 (2011 £nil) had been accepted and credit notes raised Based on the best information available to the directors, a provision for £3,190,000 (2011 £24,481,000) has been made in the accounts (see Note 17) for further credit notes to be raised The final amount that is likely to be repaid is uncertain but is not expected to result in a material adjustment to the provision

As a result of the levy review process, FSCS was made aware that firms in the Investment Fund Management sub-class were reporting income relating to Collective Investment Schemes (CIS) on an inconsistent basis (see Directors' Report – Business Review) FSCS is aware that some firms may wish to apply to restate their relevant income FSCS is unable to quantify the potential value of this issue for the levy restatement process as CIS income is not separately recorded by the FSA when firms submit their tariff data As a reliable estimate of the provision cannot be made, as per FRS 12 a contingent liability has been disclosed (see Note 26 – Contingencies) However, any consequent financial impact of re-submission requests accepted will be re-levied in 2012/13 from the remainder of the Investment Fund Management sub-class population as part of the 'truing up' exercise and so there will be a zero net overall financial effect for the Scheme Manager and the classes and sub-classes Were a reliable estimate available, the Scheme Manager's financial statements would include a provision and an equal and opposite asset for the estimated amount, and such gross up in the Balance Sheet may be material

4 Administrative expenses

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Staff costs	5	11,460	11,353
Outsourcing costs		11,645	13,160
Welcome costs		7,370	824
Change programme costs		9,836	18,001
Depreciation – owned assets	12	809	969
Auditors' remuneration			
Audit services		274	206
Non-audit services		78	–
Operating lease rentals	18	1,207	1,087
Other		21,942	11,800
		64,621	**57,401**

The Welcome costs are funded by Welcome Financial Services Limited as part of its restructuring arrangements (see Note 2(n))

Other costs have increased due to the costs of the £1,000m revolving credit facility of £3,448,000 and the professional fees incurred in pursuing recoveries from the Keydata Investment default of £7,880,000

5 Staff costs

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Aggregate gross salaries for staff, including the executive directors	9,013	8,683
Employer's national insurance contributions	1,193	1,060
Employer's pension contributions	1,254	1,610
	11,460	**11,353**

The employer's pension contributions shown above include the liability for contributions in respect of service during the year

The average number of employees of FSCS during the year was as follows

	Year ended 31 March 2012	Year ended 31 March 2011
Executive Committee and Internal Audit	8	7
Operations	93	108
Central Services	47	42
Corporate Affairs	21	17
Other	7	7
	176	**181**

6 Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Scheme), which is closed to new staff and closed to future accrual on 30 June 2011

Money purchase scheme

The non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001 FSCS makes contributions of 6 per cent, with incremental increases of 2 per cent after two years' service, and a further 2 per cent after five years The staff member may make voluntary contributions, to which a further 5 per cent will be matched by FSCS

Amounts paid by FSCS into the money purchase scheme amounted to £1,151,000 and £132,000 was outstanding to be paid at 31 March 2012 (2011 £485,000 and £49,000 respectively)

Defined benefit pension scheme

FSCS operates a funded scheme of the defined benefit type with assets held in separate trustee-administered funds An actuarial valuation of the defined benefit pension scheme was carried out as at 1 April 2009 The valuation used the projected unit method and was carried out by Buck Consultants Limited, professionally qualified actuaries

Principal actuarial assumptions at the Balance Sheet date are

	31 March 2012 % (p a)	31 March 2011 % (p a)
Discount rate	5 05	5 15
Salary increase rate	N/A	4 10*
Pension increase rate (where increase is based on Retail Price Index (RPI) inflation capped at 5% p a)	3 40	3 30
Pension increase rate (where increase is based on Consumer Price Index (CPI) inflation capped at 3% p a)	2 10	2 30
Expected return on Scheme assets	7 30	7 45
RPI inflation assumption	3 70	3 60
CPI inflation assumption	2 50	2 85

*The salary increase is assumed to be 2 0 per cent for the next year, i e 2011/12 After that year, salary increases are assumed to follow RPI inflation plus 0 5 per cent, i e 4 10 per cent p a There is no salary increase assumption for 31 March 2012 due to the closure in the year of the Scheme to new accrual

The salary increase assumption is a long-term average assumption It averages 'inflationary' increases and merit and promotional increases across the whole employee membership for the period until they leave or retire from the Scheme

The following standard mortality tables published by the Institute and Faculty of Actuaries and projections of future mortality improvements have been used

Pre- and post-retirement PMA00 for males and PFA00 for females, with future improvements to mortality projected in line with the long cohort projection methodology, with a minimum improvement of 1 per cent p a from 2000 onwards, allowing for individual members' year of birth

This assumption is consistent with last year's life expectancy assumption

Based on the post-retirement tables, future life expectancy is 28 8 years for a male currently aged 60 and 31 5 years for a female currently aged 60. The future life expectancy at age 60 for a male currently aged 40 is 31 1 years and 33 6 years for a female currently aged 40

For the 31 March 2012 disclosures, 75 per cent of members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2012 This is a change to the assumption used last year as the cash commutation factors changed with effect from June 2011 The proportion of members commuting the maximum cash available is consistent with last year's assumption

For the 31 March 2012 disclosures, 80 per cent of male and 70 per cent of female members are assumed to be married The assumption is consistent with last year's married proportion assumption

The assumptions were chosen by FSCS, with professional advice

At 31 March 2012 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equities

The fair value of the Scheme's assets is set out below, along with the expected rate of return on each asset

	31 March 2012 £'000	Expected rate of return %	31 March 2011 £'000	Expected rate of return %
Equities	9,339	7 85	9,477	7 85
Hedge funds	1,334	6 10	1,292	6 70
Property	1,334	7 60	1,086	7 85
Cash	103	3 10	964	3 80
Corporate bonds	1,334	4 60	–	–
Total assets/average return	**13,444**	**7 30**	**12,819**	**7.45**

The assets shown as at 31 March 2012 allow for the revised Scheme investment strategy as agreed by the Scheme Sponsor in January 2012 The Scheme's revised strategic allocation is 70 per cent global equities, 10 per cent hedge funds, 10 per cent property and 10 per cent corporate bonds

The expected return on assets is the average of the best estimate of investment returns for each of the investment classes held, weighted by the assumed holding as at 31 March 2012

The Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor

The amounts recognised in the Balance Sheet are as follows

	31 March 2012 £'000	31 March 2011 £'000
Assets	13,444	12,819
Liabilities	(17,066)	(15,670)
Net liability	**(3,622)**	**(2,851)**

Changes in present value of the defined benefit obligation	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening defined benefit obligation	15,670	13,930
Current service cost	375	892
Interest cost	800	800
Losses/(gains) on curtailments	(382)	–
Benefits paid	(247)	(316)
Actuarial losses	850	364
Closing defined benefit obligation	**17,066**	**15,670**

Sensitivity analysis of the Scheme liabilities

The sensitivity of the principal assumptions used to measure the Scheme liabilities are set out below

	Change in assumption	Impact on Scheme liabilities
Discount rate	Increase/decrease by 0 25%	Decrease/increase by 6 1%
Rate of inflation*	Increase/decrease by 0 25%	Increase/decrease by 5 5%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2 0%

* Including the effect of an increase in the pension increase assumption by a related amount

Changes in fair value of the Scheme assets	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening fair value of assets	12,819	11,230
Expected return	982	908
Contributions paid by employer	965	1,139
Benefits paid	(247)	(316)
Actuarial (losses)/gains	(1,075)	(142)
Closing fair value of assets	**13,444**	**12,819**

Actual return on the Scheme assets	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Actual return	**(93)**	**766**

Amount recognised in the Income and Expenditure Account	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Current service cost	375	892
Interest on liabilities	800	800
Expected return on assets	(982)	(908)
Curtailments	(382)	–
Total expense	**(189)**	**784**

FSCS expects to contribute £650,000 to its defined benefit pension plan during 2012/13

Amount recognised in Statement of Total Recognised Gains and Losses	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Actual return less expected return on assets	(1,075)	(142)
Experience gains and (losses) arising on the Scheme liabilities	(39)	239
Changes in assumptions underlying the present value of the Scheme liabilities	(811)	(603)
Net actuarial losses recognised in the period	**(1,925)**	**(506)**

As required by FRS 17, the projected unit method has been used to determine the liabilities

FSCS has agreed with the Trustees that the funding objective is to aim to ensure that the Scheme has sufficient and appropriate assets to cover its Technical Provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations

The latest actuarial valuation was as at 1 April 2009 On completion of the 2009 valuation FSCS's ordinary contribution rate was increased, with effect from 1 April 2011, from 27 3 per cent of pensionable salaries, plus £90,000 p a in respect of Scheme expenses and Pension Protection Fund (PPF) levies, to 32 1 per cent of pensionable salaries plus £111,000 p a in respect of Scheme expenses and PPF levies In addition FSCS has agreed to the following Recovery Plan to eliminate the deficit that was determined in the 2009 valuation over a period of five years from 1 April 2011, i e by 31 March 2016

The Recovery Plan consists of the following

Repayment	Period	Contributions due in period
Element 1	1 April 2009 to 31 March 2011 (inclusive)	£480,000 p a (£40,000 p m)
Element 2	1 April 2011 to 31 March 2016 (inclusive)	£903,000 p a (£75,250 p m) adjusted in accordance with the instructions below
Element 3	1 April 2011 to 31 March 2016 or a date when the Scheme ceases to allow future service benefit accrual, if earlier (inclusive)	6 7% p a of pensionable salaries

All Element 2 deficit payments in this Recovery Plan will be contingent on the results of future annual Actuarial Reports and future Actuarial Valuations

Hence, if the results set out in any future signed annual Actuarial Report or Actuarial Valuation results (whether preliminary or final) indicate that the current level of deficit contributions are projected to result in the Scheme being in surplus at the end of the Recovery Period, using assumptions calculated in a consistent way to those agreed for the 1 April 2009 valuation as set out in the Statement of Funding Principles agreed on 22 March 2011, all future Element 2 deficit contributions would reduce, on a prorated basis, so as to target the Scheme being 100 per cent funded at the end of the Recovery Period

Following the Annual Actuarial Report as at 1 April 2011, the Element 2 contribution was changed from £903,000 p a (£75,250 p m) to £538,000 p a (£44,833 p m) with effect from September 2011

The Scheme closed to future accrual of benefits on 30 June 2011, and consequently the Element 3 contributions ceased with effect from that date

The valuation of the Scheme's liabilities for accounting purposes has been carried out at a different date from when the Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions Therefore the figures quoted in this note are different from those disclosed in the last actuarial valuation report as would usually be expected The figures set out in this note are calculated according to the requirements of FRS 17 Separate calculations will be carried out for the Trustees and possibly the sponsor to monitor and control the funding of the Scheme using assumptions selected by the Trustees

FSCS estimates the duration of the Scheme liabilities on average to fall due around 26 years

History of experience gains and losses

	2012	2011	2010	2009	2008
Present value of the liabilities (£'000)	17,066	15,670	13,930	7,686	7,612
Fair value of assets (£'000)	13,444	12,819	11,230	7,320	8,190
(Deficit)/surplus in the Scheme (£'000)	(3,622)	(2,851)	(2,700)	(366)	578
Experience arising on Scheme assets (£'000)	(1,075)	(142)	2,350	(2,479)	(1,145)
Percentage of Scheme's assets (%)	(8 0)	(1 1)	20 9	(33 9)	(14 0)
Experience gains and (losses) on Scheme's liabilities (£'000)	(39)	239	(135)	24	11
Percentage of present value of Scheme's liabilities (%)	(0 2)	1 5	(1 0)	0 3	0 1
Total amount recognised in Statement of Total Recognised Gains and (Losses) (£'000)	(1,925)	(506)	(2,958)	(1,666)	1,344
Percentage of the present value of Scheme's liabilities (%)	(11 3)	(3 2)	(21 2)	(21 7)	17 7

7 Directors' emoluments

During the year, there had been a total of thirteen non-executive directors (2011 nine) and four executive directors (2011 four) As at 31 March 2012 there were nine non-executive directors (2011 nine) and four executive directors (2011 four) Total emoluments paid to directors are as follows

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Aggregate emoluments	1,180	1,036
Pension contributions – defined benefit	8	34
– money purchase	98	22
	1,286	**1,092**

Retirement benefits during the year accrued to one director (2011 one) under FSCS's defined benefit scheme and four under the money purchase scheme (2011 three)

The highest paid director, the Chief Executive (2011 the Chief Executive), received aggregate emoluments of £276,219 (comprising basic salary of £235,000, bonus of £37,500 and other emoluments of £3,719) (2011 £249,191 (comprising basic salary of £213,910, bonus of £35,250 and other emoluments of £31)), and contributions to a money purchase arrangement under FSCS's pension scheme have been made of £27,025 (2011 £12,533) The Chief Executive did not receive additional remuneration in respect of his role as director

The fees paid to the Chairman are set at £75,000 per annum (2011 £73,500) and the fees paid to the non-executive directors are set at £24,500 per annum (2011 £21,000) Additional fees paid to the Chairmen of the Audit Committee, Remuneration Committee and Contingencies Planning Committee were set at £5,000 per annum (2011 £4,750) In addition, business-related expenses totalling £13,570 (2011 £13,579) were reimbursed to the non-executive directors The Chairman and the other non-executive directors are not entitled to a pension funded by FSCS

8 Interest payable

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Loan interest – HM Treasury	16	370,166	334,414
Loan interest – other		–	30
Time value of money interest		–	6
		370,166	**334,450**

The loan interest payable to HM Treasury of £370,166,000 is made up of a charge for 2011/12 of £370,262,000 less an adjustment for the previous year of £96,000 mainly due to the reallocation of compensation costs between HM Treasury and FSCS The time value of money interest of £nil (2011 £6,000) relates to the interest payable on the Balancing Payment adjustment. The latter arises from the validation exercise carried out to verify the deemed compensation paid relating to Kaupthing Singer & Friedlander Limited and Heritable Bank Plc

9 Interest receivable and other income

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Expected net return on pension scheme assets	**182**	**108**

10 Management expenses and interest payable recoverable from classes and sub-classes

Management expenses and interest payable allocated and recoverable from the classes and sub-classes were as follows

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Deposit	374,577	340,725
General Insurance Provision	1,898	1,436
General Insurance Intermediation	14,914	7,043
Life and Pensions Provision	84	92
Life and Pensions Intermediation	3,910	4,342
Home Finance Intermediation	799	394
Investment Fund Management	14,928	10,970
Investment Intermediation	–	–
Home Finance Provision	1,465	341
Amount recoverable from classes and sub-classes	**412,575**	**365,343**
Amount recoverable in respect of base costs	**23,184**	**26,755**

The amount due in respect of base costs of £23,184,000 (2011 £26,755,000) relates to costs allocated on the basis of FSA periodic fees

The amounts recoverable from classes and sub-classes of £412,575,000 (2011 £365,343,000) comprises management expenses of £42,409,000 (2011 £30,923,000) and interest payable of £370,166,000 (2011 £334,420,000), both recoverable from classes and sub-classes as shown in the Income and Expenditure Account

The amount recoverable in respect of base costs of £23,184,000 (2011 £26,755,000) comprises management expenses of £23,184,000 (2011 £26,725,000) and interest payable of £nil (2011 £30,000)

11 Compensation payments relating to Specified Deposit Defaults

During the year, FSCS made compensation payments on behalf of the classes and sub-classes, for HM Treasury's own account and to the account of HM Treasury for amounts otherwise payable by the Icelandic Depositors' and Investors' Guarantee Fund (DIGF[1]) Compensation payments include the adjustments resulting from the validation process as described in Notes 2 and 3 to the Classes and Sub-classes Accounts The FSCS element of the compensation payments shown below is shown in the Classes and Sub-classes Accounts Amounts paid on behalf of HM Treasury below are included within 'Amounts due from HM Treasury' in Note 13, as described above in compliance with the accounting policies These are treated as amounts paid as agent and not passed through the Income and Expenditure Account

As at 31 March 2012, compensation payments in the year in respect of the Specified Deposit Defaults[2] and their allocation for funding responsibility were as follows

	HM Treasury £'000	HM Treasury, for DIGF £'000	FSCS £'000	Year ended 31 March 2012 Total £'000	Year ended 31 March 2011 Total £'000
Bradford & Bingley Plc	–	–	–	–	–
Heritable Bank Plc	(6)	–	–	(6)	331
Kaupthing Singer & Friedlander Limited	5,539	–	5,722	11,261	7,315
Landsbanki Islands hf – Icesave	4,231	10,097	5,585	19,913	74,157
London Scottish Bank Plc	1,495	–	6,963	8,458	61,885
Year ended 31 March 2012	**11,259**	**10,097**	**18,270**	**39,626**	–
Year ended 31 March 2011	**31,059**	**25,210**	**87,419**	–	**143,688**

[1] Tryggingarsjoður innstæðueigenda og fjarfesta – established pursuant to Act No 98/1999 of the Icelandic Parliament

[2] Bradford & Bingley Plc, Heritable Bank Plc, Landsbanki Islands hf, and its UK Branch and brand Icesave, Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc

12 Fixed assets

	Computers £'000	Furniture and equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 April 2011	3,039	1,556	2,877	7,472
Additions in the year	90	1	–	91
At 31 March 2012	**3,129**	**1,557**	**2,877**	**7,563**
Accumulated depreciation				
At 1 April 2011	(2,505)	(1,206)	(2,356)	(6,067)
Charge for the year	(323)	(108)	(378)	(809)
At 31 March 2012	**(2,828)**	**(1,314)**	**(2,734)**	**(6,876)**
Net book value at 31 March 2012	**301**	**243**	**143**	**687**
Net book value at 31 March 2011	**534**	**350**	**521**	**1,405**

13 Debtors

Debtors: amounts falling due within one year

	Note	31 March 2012 £'000	31 March 2011 £'000
Amounts due from the FSA	24	–	1,567
Levies receivable, net of provision			
General Insurance Provision		34	227
General Insurance Intermediation		44	153
Life and Pensions Intermediation		95	307
Investment Fund Management		844	10,492
Investment Intermediation		60,779	3,296
Home Finance Intermediation		2	7
In respect of base costs		6	130
Net amounts due from classes and sub-classes			
Deposit		381,870	348,116
Investment Fund Management		–	11,374
Investment Intermediation		10,123	–
Home Finance Intermediation		743	–
In respect of base costs		–	4,998
Amounts due from HM Treasury		–	1,876
Amounts due from administrators		67,852	228,522
Other debtors		126	101
Prepayments		858	879
		523,376	**612,046**

The debtors relating to levies receivable, net of provision, do not appear in the Classes and Sub-classes Accounts as these are recognised on a cash basis (see Note 1(f))

The amounts due from administrators of £67,852,000 (2011 £228,522,000) relate to dividends receivable from the administrator of Kaupthing Singer & Friedlander Limited and Landsbanki Íslands hf – Slitastjórn (2011 Kaupthing Singer & Friedlander Limited, Heritable Bank Plc and London Scottish Bank Plc)

Debtors amounts falling due after more than one year

	Note	31 March 2012 £'000	31 March 2011 £'000
Amount due from the Deposit class in respect of Dunfermline Building Society	17	505,000	455,000
Amounts due in respect of Specified Deposit Defaults		17,903,060	18,561,690
		18,408,060	**19,016,690**

14 Cash at bank, overdraft, facilities and classes and sub-classes borrowings

As at 31 March 2012, FSCS had facilities for business purposes of £1,002m, comprising a 364-day Sterling revolving credit facility of £1,000m expiring on 22 December 2012 and an overdraft facility of £2m at a fixed margin above bank rate Any usage of the credit facility would be subject to Board approval The cost in the year of this facility was £3,448,000

	31 March 2012 £'000	31 March 2011 £'000
Cash at bank	109,944	208,578
Cash on short-term deposit	4,085	10,098
	114,029	**218,676**
Bank overdraft	–	(1,203)
	114,029	**217,473**

Cash book balances which include cheques or other effects which are drawn but not presented are shown as bank overdrafts above, and presented within Creditors in the Balance Sheet The cash at bank includes £52,972,000 (2011 £49,176,000) received from Welcome Financial Services Limited, referred to in Note 2(n) This sum is ring-fenced and can only be used to pay costs relating to Welcome

15 Creditors and accruals

Creditors: amounts falling due within one year

	Note	31 March 2012 £'000	31 March 2011 £'000
Compensation payable		1,364	16,491
Amounts due to the FSA	24	96	–
Levies accrued			
General Insurance Provision		115	115
General Insurance Intermediation		21	15
Life and Pensions Provision		–	1
Life and Pensions Intermediation		200	200
Investment Intermediation		31	31
Home Finance Provision		–	–
Home Finance Intermediation		1	1
Net amounts due to classes and sub-classes			
General Insurance Provision		47,422	49,618
General Insurance Intermediation		27,177	11,004
Life and Pensions Provision		854	414
Life and Pensions Intermediation		1,568	3,612
Investment Fund Management		27,737	–
Investment Intermediation		–	83,038
Home Finance Intermediation		–	42
In respect of base costs		8,280	–
Social security and other taxes		409	324
Due to claimants and/or Welcome		54,088	49,176
Accruals		10,645	11,777
Amounts due to HM Treasury		30,214	–
Other creditors		2,888	1,530
		213,110	**227,389**

The £30,214,000 due to HM Treasury (2011 £1,876,000 due from HM Treasury) (Note 13) includes an amount of £2,337,000 that relates to compensation payments made on behalf of HM Treasury and DIGF not offset against the loan It is made up of the amount brought forward of £(1,876,000) (2011 £(54,326,000)) less the compensation payments made during the year of £21,356,000 (2011 £56,269,000) on behalf of HM Treasury (Note 11) plus drawings offset against the loan of £25,569,000 (2011 £108,719,000) (Note 16) The remainder of the balance relates to the HM Treasury share of dividends declared by insolvent estates not yet received

The £54,088,000 (2011 £49,176,000) due to claimants and/or Welcome relates to payments received from Welcome As explained in Note 2(n), payments from Welcome are only used to pay compensation and other costs relating to Welcome and any excess amount will ultimately be repaid to Welcome

Creditors amounts falling due after more than one year

	Note	31 March 2012 £'000	31 March 2011 £'000
Amounts due to HM Treasury			
Loans	17	17,954,032	18,805,265
		17,954,032	**18,805,265**

16 Loans

As a result of the Specified Deposit Defaults, various arrangements were made during 2008/09 to obtain unsecured loans with HM Treasury and the Bank of England The facilities with the Bank of England were subsequently refinanced to cover accumulated interest and principal by HM Treasury Details of loans with HM Treasury are as follows

Loans

	Principal outstanding as at 31 March 2011 £'000	Drawdown from (and repayment to) HM Treasury £'000	Recoveries £'000	Compensation payments on behalf of HM Treasury £'000	Principal outstanding as at 31 March 2012 £'000
Loan in respect of					
Bradford & Bingley Plc	15,658,944	(4,436)	–	–	15,654,509
Heritable Bank Plc	236,937	(3,173)	(82,744)	(1,782)	149,237
Kaupthing Singer & Friedlander Limited	1,248,811	–	(294,321)	–	954,490
Landsbanki Islands hf – Icesave	1,437,941	25,856	(432,051)	(22,824)	1,008,922
London Scottish Bank Plc	222,632	10,000	(44,796)	(963)	186,874
	18,805,265	**28,247**	**(853,912)**	**(25,569)**	**17,954,032**

Loan interest payable

	Facility £'000	Interest outstanding as at 31 March 2012 £'000	Interest outstanding as at 31 March 2011 £'000
Loan in respect of			
Bradford & Bingley Plc	15,654,509	315,421	275,887
Heritable Bank Plc	149,237	3,573	4,809
Kaupthing Singer & Friedlander Limited	974,490	21,077	25,277
Landsbanki Islands hf – Icesave	1,008,922	26,029	24,932
London Scottish Bank Plc	196,874	4,066	3,509
	17,984,032	**370,166**	**334,414**

The facility for London Scottish Bank Plc includes £10,000,000 undrawn at 31 March 2012

Principal terms and conditions

During the year, FSCS made drawings from HM Treasury which were used to pay compensation, some of which was on behalf of HM Treasury Those amounts that were paid on behalf of HM Treasury were subsequently used to reduce the loan balances with HM Treasury

FSCS has loan facilities agreed with HM Treasury for each default These loan agreements were entered into by FSCS as Scheme Manager on behalf of the classes and the sub-classes The outstanding principal under these facilities is only repayable through recoveries from the estates of defaulted firms and levies on levy-paying firms Under the terms of the original facilities, as the loans were not repaid by the target repayment date of 31 March 2012, FSCS refinanced the agreement with HM Treasury with effect from 1 April 2012 FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default The loans have target repayment dates of 31 March 2024 for Bradford & Bingley and 31 March 2016 for the remainder FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks

Interest

Under the terms of the refinanced loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated at 12-month LIBOR plus 100 basis points (previously 12-month LIBOR plus 30 basis points), adjusted monthly This rate will be subject to a floor equal to HM Treasury's own cost of borrowing as represented by the gilt rate for borrowing of an equivalent duration There will be an annual cap on the amount of interest that the industry will have to pay through FSCS levies This cap will be set on the advice of the FSA (and in due course the Prudential Regulation Authority) and take into account what the deposit-taking sector can afford having regard to other FSCS and regulatory commitments Any interest charges exceeding the annual cap will be capitalised and repaid from levies on deposit takers

The interest figure as shown in the table above is the interest accrued on the principal

The loan interest of £370,166,000 is recoverable from the Deposit class by way of a specific cost management expenses levy, and is payable to HM Treasury on 1 October 2012

17 Provisions for liabilities and charges

	31 March 2011 £'000	Charge in the year £'000	Utilised in the year £'000	31 March 2012 £'000
Restructuring	770	–	(572)	198
Levy provision	24,481	–	(21,291)	3,190
Dilapidations	295	161	–	456
Dunfermline Building Society	455,000	50,000	–	505,000
Total provisions	**480,546**	**50,161**	**(21,863)**	**508,844**

Restructuring

FSCS has undertaken a major restructuring of the organisation This has resulted in redundancies A provision of £198,000 (2011 £770,000) remains for the anticipated future costs of such redundancies

Levy provision

The levy provision of £3,190,000 (2011 £24,481,000) relates to requests for refunds received from levy payers currently being investigated (see Note 3) This is based on the best information available to the directors

Dilapidations

Provision is made for dilapidations under the lease for the premises at 1 Portsoken Street, London (see Note 18), as above

Dunfermline Building Society

Following notice served by HM Treasury, FSCS has an obligation under the Special Resolution Regime to contribute to the net costs of resolution of Dunfermline Building Society, including interest, but after recoveries, which will be discharged through levies Based on the best information available to the directors, the brought forward provision has been increased by £50,000,000 in the financial statements for the year ended 31 March 2012 to include interest accrued during the year

This amount will be due to HM Treasury and, as shown in Note 13, recoverable from the Deposit class However, the timing of the final outcome is uncertain, although it is not expected to be within 12 months of the Balance Sheet date The final amount may be different and, once agreed, may potentially result in a material adjustment to the provision being required (see Note 3)

18 Payments under lease agreements

Future minimum payments – operating leases

	Lease expiring			
Amounts payable in minimum lease commitments falling due as follows	Less than one year £'000	Between two and five years £'000	Greater than five years £'000	Total £'000
Land and buildings	739	1,992	3,781	6,512
Other	44	44	–	88
	783	**2,036**	**3,781**	**6,600**

The lease for the premises at 7th Floor, 1 Portsoken Street, London is from 13 February 2001 to 21 June 2018, but on 21 December 2011 FSCS exercised its right to break the lease on 24 June 2012 The lease for the premises at 5th Floor, 1 Portsoken Street, London is from 1 February 2006 to 23 June 2018, but on 21 December 2011 FSCS exercised its right to break the lease on 24 June 2012

On 20 December 2011 FSCS signed a lease for its new premises at 10th Floor Beaufort House, 15 St Botolph Street, London The lease term is from 31 December 2011 to 30 December 2021

19 Reserves

	Note	31 March 2012 £'000	31 March 2011 £'000
At 1 April		(2,851)	(2,700)
Excess of income over expenditure on ordinary activities after tax		1,154	355
Actuarial loss on pension scheme liabilities	6	(1,925)	(506)
At 31 March		**(3,622)**	**(2,851)**

20 Reconciliation of the excess income over expenditure on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the Income and Expenditure Account and Balance Sheet movements

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Excess of income over expenditure on ordinary activities before interest and tax		371,320	334,805
Depreciation	12	809	969
Decrease in debtors		697,300	561,442
(Decrease)/increase in creditors		(14,279)	126,489
Difference between pension charge and cash contributions		(1,154)	(355)
Increase in provisions for liabilities and charges		28,298	80,289
Net cash inflow from operating activities		**1,082,294**	**1,103,639**

21 Returns on investments and servicing of finance

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Interest paid (see Notes 8 and 16)	(334,414)	(382,849)
	(334,414)	**(382,849)**

22 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Decrease/(increase) in cash at bank and short-term deposits in the year	103,444	(200,766)
Decrease in loans	(851,233)	(519,477)
Decrease in net debt	(747,789)	(720,243)
Net funds at 31 March 2011	18,587,792	19,308,035
Net funds at 31 March 2012	**17,840,003**	**18,587,792**

23 Analysis of change in net funds

	At 31 March 2011 £'000	Cash inflows/ (outflows) £'000	At 31 March 2012 £'000
Cash at bank and short-term deposits	218,676	(104,647)	114,029
Bank overdraft	(1,203)	1,203	–
	217,473	**(103,444)**	**114,029**

24 Transactions with related parties

During the year, FSCS entered into transactions with the FSA as a related party The FSA appoints, and has the right to remove, directors to the Board of FSCS and it establishes the rules under which FSCS became operative as from midnight on 30 November 2001 The FSA is considered to be a related party but not a controlling party

During the year, the FSA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf Levy invoices, net of credit notes, were raised for £576,944,000 (2011 £857,385,000) including £344,382,000 raised as a levy for the interest on the loans relating to the Specified Deposit Defaults on 25 July 2011 and £60,000,000 raised as a further interim levy on 26 March 2012 Related collections of £535,270,000 (2011 £918,880,000) were received The charge for the service was £336,000 (2011 £314,000)

Overall, payments less receipts of £536,933,000 (2011 £917,854,000) were made by the FSA to FSCS, leaving amounts due from the FSA to FSCS at 31 March 2012 of £(96,000) (2011 £1,567,000)

The FSA is a party to the lease agreement for FSCS's premises at 7th Floor, 1 Portsoken Street, London (see Note 18) as guarantor of performance of the lease

HM Treasury is not considered to be a related party or a controlling party However, in the interests of transparency full disclosure of the transactions with HM Treasury has been made These transactions with HM Treasury comprise loan drawdowns and repayments, loan interest fees, loan commitment fees and compensation payments on behalf of HM Treasury

All loan drawdowns, repayments and interest fees in the year as well as the balance owed at the year end are disclosed in Note 16 During the year commitment fees of £33,000 (2011 £315,000) and administration fees of £144,000 (2011 £204,000) were paid to HM Treasury

At 31 March 2012 FSCS owed to HM Treasury £30,214,000 (2011 owed by HM Treasury £1,876,000) due to compensation payments made on behalf of HM Treasury of £2,337,000 (2011 owed by HM Treasury £1,876,000) and £27,877,000 relating to the HM Treasury share of dividends declared by insolvent estates not yet received (see Note 15)

During the year FSCS made compensation payments on behalf of HM Treasury of £11,259,000 (2011 £31,059,000) and on behalf of HM Treasury for DIGF £10,097,000 (2011 £25,210,000) (see Note 11)

FSCS has also made a provision at 31 March 2012 of £505,000,000 (2011 £455,000,000) for amounts owed to HM Treasury as a result of FSCS's obligation under the Special Resolution Regime to contribute to the net costs of resolution of Dunfermline Building Society (see Note 17)

25 Capital commitments

At 31 March 2012 FSCS was committed to carrying out fit-out works at its new leased office premises at 10th Floor Beaufort House The costs of this work will subsequently be recharged to the landlord The total amount authorised and contracted for but not provided in the financial statements is £3,201,000 (2011 £nil)

26 Contingencies

FSCS may have contingent liabilities in respect of legal claims arising in the ordinary course of business It is not anticipated that any material liabilities will arise from the contingent liabilities to FSCS In any event, any liabilities that crystallise would normally be recoverable from the appropriate class or sub-class and would not fall to FSCS as designated Scheme Manager

As a result of the levy review process, FSCS was made aware that firms in the Investment Fund Management sub-class were reporting income relating to Collective Investment Schemes (CIS) on an inconsistent basis (see Directors' Report – Business Review) According to FRS 12 Provisions, Contingent Liabilities and Contingent Assets, a provision should only be made if the amount of the obligation can be measured with sufficient reliability FSCS is unable to quantify the potential value of this issue for the levy restatement process as CIS income was not separately recorded when firms submitted their tariff data to the FSA for the 2010/11 Investment Fund Management levies, totalling £233,786,000, and so the maximum potential provision cannot exceed this amount As a reliable estimate of the provision cannot be made, as per FRS 12 a contingent liability has been disclosed However, any consequent financial impact of re-submission requests accepted will be re-levied in 2012/13 from the remainder of the Investment Fund Management sub-class population as part of the 'truing up' exercise and so there will be a zero net overall financial effect for the Scheme Manager and the classes and sub-classes

27 Going concern

The directors are satisfied that FSCS is in a position to meet its obligations as they fall due As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention

Financial Services Compensation Scheme: Classes and Sub-classes Financial Statements for the year ended 31 March 2012

The powers of the FSA under the FSMA became effective as at midnight on 30 November 2001

As explained in Chapter 6 of the FEES manual of the FSA's Handbook, for funding purposes, and effective from 1 April 2008, FSCS is split into broad classes, comprising Deposit, General Insurance, Life and Pensions, Investment, and Home Finance (FEES 6 5 7R and FEES 6 Annex 3) Within each broad class there are one or more sub-classes FSCS must keep accounts which show

1) the funds held to the credit of each class and sub-class, and

2) the liabilities of that class and sub-class

The financial statements for FSCS's classes and sub-classes for the year ended 31 March 2012, with comparatives, including the equivalent fund balances for the year ended 31 March 2011, are set out as follows

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that

1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

2) he/she has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the FSCS auditors are aware of that information

Statement of the directors' responsibilities in respect of the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the classes' and sub-classes' transactions and disclose with reasonable accuracy at any time the financial position of the classes and sub-classes and enable them to ensure that the financial statements comply with the requirements They are also responsible for safeguarding the assets of the classes and sub-classes 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 company's website Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

By order of the Board

Mark Thomas
Secretary
19 June 2012

FSCS Classes and Sub-classes
Statement of Fund Movements for the year ended 31 March 2012

Funding sub-class code	Total		Compensation costs net of recoveries relating to SDDs		Deposit SA01		General Insurance Provision SB01	
	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
Compensation and interest	(346,691)	(535,357)	(18 270)	(87 419)	(57 836)	(56 738)	(54 308)	(61 649)
Exchange gain/(loss)	(779)	211	(828)	(1)	–	212	49	–
Other income	389	–	–	–	–	–	–	389
Recoveries received	759 213	756 001	673 292	735 265	678	1 240	3 635	15 359
	412 132	220 855	654 194	647 845	(57 158)	(55 286)	(50 624)	(46 290)
Attributable management costs								
Specific costs	(42 409)	(30 923)	–	–	(4 411)	(6 305)	(1 898)	(1 436)
Specified Deposit Defaults interest	(370 166)	(334 420)	–	–	(370 166)	(334 420)	–	–
	(412 575)	(365 343)	–	–	(374 577)	(340 725)	(1 898)	(1 436)
Interest received								
Gross before tax	193	82	–	–	5	54	49	141
Tax at 26%	(49)	(22)	–	–	(1)	(14)	(13)	–
	144	60	–	–	4	40	36	102
Levies received	498 679	897 141	4 436	–	353 318	380 369	50 802	43 937
Cross-subsidy transfer	–	–	–	–	–	–	–	–
Funds brought forward	(19 232 705)	(19 985 418)	(18 561 690)	(19 209 535)	(783 052)	(767 450)	47 510	51 197
Funds carried forward	**(18 734 325)**	**(19 232 705)**	**(17 903 060)**	**(18 561 690)**	**(861 465)**	**(783 052)**	**45,826**	**47,510**

General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Fund Management SD01		Investment Intermediation SD02		Home Finance Provision SE01		Home Finance Intermediation SE02	
2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
(86 449)	(35 800)	(2)	–	(20 603)	(16 191)	(151)	(116)	(108,765)	(277 147)	–	–	(307)	(297)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	389	–		–	–	–
48,992	1 052	–	–	1 347	1,585	29 607	421	1 662	1 079	–	–	–	–
(37 457)	(34 748)	(2)	–	(19 256)	(14 606)	29 456	305	(106 714)	(276 068)	–	–	(307)	(297)
(14 914)	(7 043)	(84)	(92)	(3 910)	(4 342)	(799)	(394)	(14 928)	(10 970)	–	–	(1 465)	(341)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
(14 914)	(7 043)	(84)	(92)	(3 910)	(4 342)	(799)	(394)	(14 928)	(10 970)	–	–	(1 465)	(341)
25	8	1	1	2	16	27	1	85	(140)	–	–	(1)	1
(6)	(2)	–	–	–	(5)	(7)	–	(22)	38	–	–	–	–
19	6	1	1	2	11	20	1	63	(102)	–	–	(1)	1
68 276	57 227	525	(361)	22 236	10 643	(35 794)	217 821	33 881	188 044	–	–	999	(539)
–	–	–	–	–	–	35 934	(216 778)	(35 934)	216 778	–	–	–	–
9 712	(5 730)	414	866	1 676	9 970	839	(116)	51 865	(65 817)	–	–	21	1 197
25 636	**9,712**	**854**	**414**	**748**	**1,676**	**29,656**	**839**	**(71 767)**	**51 865**	–	–	**(753)**	**21**

FSCS Classes and Sub-classes
Statement of Assets and Liabilities at 31 March 2012

	Total		Compensation costs net of recoveries relating to SDDs		Deposit		General Insurance Provision	
Funding sub-class code					SA01		SB01	
	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
Current assets								
Net amounts due from FSCS	**106 495**	**146 373**	–	–	–	–	47 389	49 390
Taxation	**75**	**133**	–	–	2	77	19	44
Term deposits and cash at bank	**25,645**	**21,590**	–	–	25 447	21 316	198	274
	132 215	**168 096**	–	–	25 449	21 393	47 606	49 708
Current liabilities								
Net amounts due from FSCS	**(453,061)**	**(348 115)**	–	–	(381 870)	(348 116)	–	–
Taxation	–	**(27)**	–	–	–	–	–	–
Bank overdrafts	**(5 419)**	**(35,969)**	–	–	(44)	(1 329)	(1 780)	(2 198)
	(458 480)	**(384,111)**	–	–	(381 914)	(349 445)	(1 780)	(2 198)
Long-term liabilities								
Net amounts due to FSCS	**(18 408 060)**	**(19 016 690)**	(17 903 060)	(18 561 690)	(505 000)	(455 000)	–	–
Total net assets/(liabilities)	(18,734,325)	(19 232,705)	(17,903,060)	(18 561 690)	(861,465)	(783,052)	45,826	47,510

General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Fund Management SD01		Investment Intermediation SD02		Home Finance Provision SE01		Home Finance Intermediation SE02	
2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
27 133	10 851	854	415	1 473	3 306	29 646	845	–	81 531	–	–	–	35
10	3	–	–	2	9	10	–	32	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–
27 143	10 854	854	415	1 475	3 315	29 656	845	32	81 531	–	–	–	35
–	–	–	–	–	–	–	–	(70 446)	–	–	–	(745)	–
–	–	–	(1)	–	(2)	–	(2)	–	(22)	–	–	–	–
(1 507)	(1 142)	–	–	(727)	(1 637)	–	(4)	(1 353)	(29 644)	–	–	(8)	(14)
(1 507)	(1 142)	–	(1)	(727)	(1 639)	–	(6)	(71 799)	(29 666)	–	–	(753)	(14)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
25 636	**9 712**	**854**	**414**	**748**	**1,676**	**29 656**	**839**	**(71,767)**	**51 865**	–	–	**(753)**	**21**

FSCS Classes and Sub-classes
Statement of Base Costs and Related Levies at 31 March 2012

Base Cost Fund Account	Total		Minimum fee A000		Deposit takers A001		Home finance providers A002		General insurance A003		Life insurance A004		Society of Lloyd's A006	
	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
Levies received	36 582	21 836	1 655	1 022	10 987	6 553	856	750	2 919	1 523	3 937	2 345	140	130
Base costs allocated	(23 184)	(26 755)	(834)	(1,239)	(7 601)	(8 217)	(607)	(604)	(1 728)	(1 930)	(2 630)	(3 056)	(69)	(94)
Balance at 1 April 2011	(5 127)	(208)	(217)	–	(1 732)	(68)	146	–	(581)	(174)	(926)	(215)	36	–
Funds carried forward	**8 271**	**(5 127)**	**604**	**(217)**	**1 654**	**(1,732)**	**395**	**146**	**610**	**(581)**	**381**	**(926)**	**107**	**36**
Current assets														
Net amounts due from FSCS	8 290	251	604	–	1 654	–	395	146	610	–	381	–	107	36
	8 290	251	604	–	1 654	–	395	146	610	–	381	–	107	36
Current liabilities														
Net amounts due to FSCS	(19)	(5 378)	–	(217)	–	(1 732)	–	–	–	(581)	–	(926)	–	–
	(19)	(5 378)	–	(217)	–	(1 732)	–	–	–	(581)	–	(926)	–	–
Total net assets/ (liabilities)	**8 271**	**(5 127)**	**604**	**(217)**	**1,654**	**(1,732)**	**395**	**146**	**610**	**(581)**	**381**	**(926)**	**107**	**36**

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the classes and sub-classes, on 19 June 2012

L Churchill

Lawrence Churchill
Chairman

FSA Fee Block	Fund managers A007		Operators/ Trustees Collective Investment Schemes A009		Firms dealing as principal A010		Advising/ arranging (holding client money) A012		Advising/ arranging (not holding client money) A013		Corporate finance A014		Home finance mediation A018		General insurance mediation A019	
	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
	2 421	1 577	554	362	2 523	1 390	2 388	1 290	3 924	2 101	703	444	1 149	947	2 426	1 402
	(1 604)	(1 930)	(472)	(371)	(2 138)	(1 805)	(1 707)	(1 641)	(1 638)	(2 528)	(506)	(497)	(619)	(906)	(1 031)	(1 937)
	(263)	90	12	21	(404)	11	(336)	15	(381)	46	(42)	11	57	16	(496)	39
	554	**(263)**	**94**	**12**	**(19)**	**(404)**	**345**	**(336)**	**1 905**	**(381)**	**155**	**(42)**	**587**	**57**	**899**	**(496)**
	554	–	94	12	–	–	345	–	1 905	–	155	–	587	57	899	–
	554	–	94	12	–	–	345	–	1 905	–	155	–	587	57	899	–
	–	(263)	–	–	(19)	(404)	–	(336)	–	(381)	–	(42)	–	–	–	(496)
	–	(263)	–	–	(19)	(404)	–	(336)	–	(381)	–	(42)	–	–	–	(496)
	554	**(263)**	**94**	**12**	**(19)**	**(404)**	**345**	**(336)**	**1,905**	**(381)**	**155**	**(42)**	**587**	**57**	**899**	**(496)**

FSCS: Notes to the Classes and Sub-classes Financial Statements for the year ended 31 March 2012

1 Accounting policies

The financial statements have been prepared in accordance with the following accounting policies

a) Basis of accounting

The FEES manual requires FSCS to keep accounts which show the funds held to the credit of each broad class and sub-class and the liabilities of that broad class and sub-class

The financial statements have been prepared under the historical cost convention and on the basis that Financial Services Compensation Scheme Limited, as the designated Scheme Manager, will exercise its responsibilities under the FSMA and the FEES manual to recover management expenses and compensation costs on behalf of the broad classes and sub-classes, as defined for funding purposes in the FSA Handbook The financial statements have been prepared on a going concern basis in accordance with Note 10 of the Classes and Sub-classes Financial Statements and Note 16 and Note 27 of FSCS's financial statements and

- Section 218 of the Financial Services and Markets Act 2000,
- the FSA Handbook (in particular rule COMP 2 2 5),
- the FSA-FSCS Memorandum of Understanding (Section 24 to 26), and
- the accounting policies set out here and overleaf

The five broad classes are classified based on identifiable industry sectors

- Deposit,
- General Insurance,
- Life and Pensions,
- Investment, and
- Home Finance

Each broad class is divided into two sub-classes along provider and intermediation lines with the exception of the Deposit class

The accounting policies have been selected by the designated Scheme Manager

b) Compensation costs

These costs, which include interest paid to claimants, comprise deemed compensation (see Note 3), payments made to claimants and amounts for offers which have been made, are due and accepted and, for reinstatement cases, fully valued, but which have not been paid at the Balance Sheet date No account has been taken of compensation costs in respect of offers accepted after the Balance Sheet date

c) Recoveries

Recoveries are credited to funds when notification is received in respect of dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the Balance Sheet date Where no notification is received, recoveries are credited on receipt

d) Management expenses

Management expenses comprise base costs, being the costs of running the classes and sub-classes, and specific costs, which are the remaining costs which cover the handling and payment of compensation The specific costs are allocated by FSCS to each class and sub-class and in accordance with the levy principles contained within the FEES manual 6 4 5, 6 4 6 and 6 4 7 The base costs are not allocated to classes and sub-classes but are shown against the FSA fee blocks by which they are levied (FEES manual 6 1 10)

e) Interest receivable

Interest received on cash deposits is credited to the classes or sub-classes in proportion to their relative fund balance

f) Levies

The classes and sub-classes are funded by levies on firms authorised by the FSA It raises levies, on behalf of the classes and sub-classes, which are credited to the classes and sub-classes on a cash received basis Levies refunded are accounted for on payment Where requests for the remission or rebate of a levy have been made, this is only recognised in the classes and sub-classes when the payment is made The levy relating to the base cost element of the management expenses has been credited to the relevant FSA fee block Under the FEES rules, once a sub-class reaches its annual compensation costs levy limit, the connected sub-class in the broad class (the 'receiving sub-class') is required to contribute to any further compensation costs levy (again up to an annual limit) Levies received during the year from a receiving sub-class are shown as levies received in the sub-class accounts of the receiving sub-class, together with a corresponding transfer out to the connected sub-class Any provision or contingent liability recognised in the Scheme Manager for levy rebates is only recognised in the Classes and Sub-classes Accounts when cash payment is actually made

g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the Balance Sheet date All differences are taken to the Statement of Fund Movements

h) Cash flow

No statement of cash flow is prepared because, in the opinion of the directors, this would not provide any useful information in addition to that already provided in the Statement of Fund Movements and Statement of Assets and Liabilities

i) Taxation

Interest income is recognised gross of tax The related tax on interest income is charged to the Statement of Fund Movements

j) Special resolution regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the Tripartite Authorities a statutory framework for dealing with distressed banks and building societies Under the Act, and its regulations, FSCS may be required to contribute to the costs of the SRR, but no more than the cost that FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout Any such costs, although initially obligations on the Scheme Manager, are recoverable from the classes or sub-classes and will be funded through levies

Such costs are provided for in the financial statements when a reliable estimate can be made, otherwise they are disclosed as a contingency

k) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011 Welcome sold a substantial number of Payment Protection Insurance policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome Such payments are shown in the Balance Sheet of the Scheme Manager as an asset and in 'Creditors amounts falling due within one year' since any excess payments will be repaid to Welcome Compensation costs and recoveries are shown in the Classes and Sub-classes Accounts only and ultimately the costs associated with the handling of claims are shown in the Scheme Manager Income and Expenditure Account under administrative expenses and are recovered from the Insurance Intermediation sub-class An equivalent amount is then released from the Scheme Manager to the sub-class to fund these costs

l) Accounting judgements and key estimation uncertainties

As designated Scheme Manager, FSCS is required to prepare class and sub-class financial statements In relation to these financial statements, drawn up in accordance with the accounting policies above, there are no areas of key estimation uncertainty, beyond those described in Note 3 of FSCS's financial statements

2 Compensation costs

Payments to valid claimants are made in accordance with the FEES manual and are summarised within class and sub-class records by type of claim and defaulting firm Extracts from these summaries are shown within the Annual Report. A number of claims relate to firms which were handled previously by former schemes

A summary of compensation costs for the Specified Deposit Defaults of £18,270,000 made up of validation adjustments (see Note 3) of £nil and manual payments of £18,270,000 is shown below

	Year ended 31 March 2011 £'000	FSCS manual payments £'000	Year ended 31 March 2012 £'000
Bradford & Bingley Plc	15,654,509	–	15,654,509
Heritable Bank Plc	464,676	–	464,676
Kaupthing Singer & Friedlander Limited	2,583,282	5,722	2,589,004
Landsbanki Islands hf – Icesave	1,428,549	5,585	1,434,134
London Scottish Bank Plc	224,758	6,963	231,721
	20,355,774	**18,270**	**20,374,044**

3 Deemed compensation costs

Compensation costs include amounts paid under various Orders during the previous year and are referred to as deemed compensation These amounts were subject to validations as set out in the Order, to assess the total amounts of compensation that would have been paid to qualifying claimants, and any resulting adjustments to the original deemed compensation are referred to as 'validation adjustments'

Recoveries are accounted for within the Classes and Sub-classes Financial Statements in accordance with Note 1(c)

As explained in Notes 11 and 16 to the FSCS financial statements, the Specified Deposit Defaults compensation costs, including net deemed compensation costs, are funded through borrowings The principal is repayable through recoveries with any remaining balance levyable FSCS refinanced the agreement with HM Treasury with effect from 1 April 2012 FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default The loans have target repayment dates of 31 March 2024 for Bradford & Bingley and 31 March 2016 for the remainder FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks

4 Management expenses

Management expenses charged by FSCS, the Scheme Manager, to the classes and sub-classes include payments made in the year for the FSCS pension scheme Administrative expenses of FSCS, however, reflect FRS 17 adjustments with a charge for the current service cost in the year This treatment ensures current funding of the payments as and when they are made

As stated above (Note 1(d)), management expenses are allocated to classes and sub-classes and FSA fee blocks under the rules within the FEES manual, chapter 6

5 Interest received

Interest received comprises the following

	Rate	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Term deposits	Available money market rates	23	23
Other bank accounts	Available rates	31	60
Loan interest		138	–
		192	**83**

6 Levies received

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for FSCS by the FSA

Subsequent to the issue of interim levy invoices in 2010/11 to firms in the Investment Intermediation and Investment Fund Management sub-classes totalling £325,051,000, a number of firms have applied for a reduction of the amount levied due to mistakes in the tariff data submitted by them to the FSA These claims total £86,024,000 (2011 £79,993,000) As at 31 March 2012 a total of £52,100,000 of claims had been accepted and credit notes raised Those credit notes that have been repaid have been accounted for in the classes and sub-classes Provision has been made for those credit note requests that have been received but are still under investigation of £3,190,000 (2011 £24,481,000) in the financial statements of the Scheme Manager (see Notes 3 and 17) and, in accordance with the accounting policies herein, are not recognised in the classes and sub-classes The final amount that is likely to be repaid is uncertain but the amount eventually repaid will be levied in the future

As a result of the levy review process, FSCS was made aware that firms in the Investment Fund Management sub-class were reporting income relating to Collective Investment Schemes (CIS) on an inconsistent basis FSCS is aware that some firms may wish to restate their relevant income FSCS is unable to quantify the potential value of this issue for the levy restatement process as CIS income is not separately recorded by the FSA when firms submit their tariff data As a reliable estimate of the provision cannot be made, as per FRS 12 a contingent liability has been disclosed in the financial statements of the Scheme Manager (see Note 26) and in accordance with the accounting policies herein, not recognised in the classes and sub-classes However, any consequent financial impact of re-submission requests accepted will be re-levied in 2012/13 from the remainder of the Investment Fund Management sub-class population as part of the 'truing up' exercise and so there will be a zero net overall financial effect for the Scheme Manager and the classes and sub-classes as any levy amendments and/or rebates will be redistributed among levy payers

7 Term deposits and cash at banks

Cleared money at banks is placed on overnight deposit, within strict limits and rules as laid down and reviewed regularly by the FSCS Board

Cashbook balances, which include cheques or other effects which are drawn but not presented, are shown as bank overdrafts within the Classes and Sub-classes Statement of Assets and Liabilities

As at 31 March 2012, FSCS is a party to various joint accounts with claims administration companies and 'run-off agents' engaged by the insolvency practitioners involved with the Insurance Provision sub-class to make payments to policyholders The balances of these accounts at 31 March 2012 of £198,000 (2011 £274,000) are included within term deposits and cash at banks in the Insurance Provision sub-class Statement of Assets and Liabilities

8 Special resolution regime – Dunfermline Building Society

On 30 March 2009, the Bank of England exercised 'stabilisation powers' under the Banking Act 2009 in respect of Dunfermline Building Society including through the Dunfermline Building Society Property Transfer Instrument 2009 by which certain property, rights and liabilities of Dunfermline Building Society were transferred to the Nationwide Building Society HM Treasury served notice on FSCS, revised during the year, placing an obligation on FSCS to contribute to the net costs of the resolution, including interest, but after recoveries, which will be discharged by FSCS through levies

Based on the best information available to the directors, the brought forward provision has been increased by £50,000,000 in the financial statements of the Scheme Manager for the year ended 31 March 2012 to include the interest accrued during the year on the balance owing to HM Treasury, and is recoverable from the Deposit class In the financial statements of the classes and sub-classes, this amount has been shown as a creditor in the Deposit class, due to FSCS after more than one year, and charged to compensation costs in the same class

However, the final outcome may be different and the final amounts, once agreed, may potentially result in a material adjustment to the provision being required It is, however, unlikely to exceed £1 12bn, the current estimated cost of the resolution In addition, as referred to above, interest at a rate of 4 5 per cent will be applied in the calculation of the contribution, both to the costs of resolution and to the FSCS recovery amount When FSCS is notified by HM Treasury of the final contribution required, the creditor amount will be updated accordingly and the corresponding change made to the compensation cost

9 Welcome Financial Services Limited (Welcome)

Compensation costs of £41,438,000 and management expenses of £7,370,000 relating to Welcome were incurred in the year This is shown under the Insurance Intermediation sub-class in the Statement of Fund Movements for the year ended 31 March 2012 These amounts have been recovered from the Scheme Manager

10 Going concern

At 31 March 2012 the classes and sub-classes had a total deficit of £18,734,325,000 as a result of compensation costs and management expenses being paid out in advance of levies being received

At 31 March 2012 the total deficit included current liabilities of £458,480,000 of which £453,061,000 was due to the Scheme Manager The amount due to the Scheme Manager is due to compensation costs and management expenses being paid in advance of levies being received Levies are recognised in the Classes and Sub-classes Accounts on a cash received basis, in accordance with the accounting policies, and so future levies that will be raised to settle this liability are not recognised

At 31 March 2012 the classes and sub-classes had a long-term liability of £18,408,060,000 due to the Scheme Manager The amount due to the Scheme Manager is due to compensation costs being paid in advance of levies and recoveries being received This liability has been funded by the loan facilities with HM Treasury, taken out by the Scheme Manager, on behalf of the classes and sub-classes, to fund the compensation costs relating to the Specified Deposit Defaults of 2008/09 (see Note 16 to the FSCS financial statements) This liability will be settled through recoveries or dividends from the estates of defaulted firms and, to the extent that there is a shortfall, levies from levy-paying firms In accordance with the accounting policies of the classes and sub-classes, recoveries are only credited to funds when notification is received in respect of dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the Balance Sheet date Therefore there is no recognition for future recoveries or levies that will be used to pay the liability

The directors are satisfied that the classes and sub-classes are in a position to meet their obligations as they fall due As such, the classes and sub-classes are going concerns and it is appropriate that these financial statements are prepared under the going concern accounting convention

Report of the Independent Auditors of the Financial Services Compensation Scheme to the Financial Services Authority

We have audited the financial statements of the Financial Services Compensation Scheme classes and sub-classes (Classes and Sub-classes) for the year ended 31 March 2012 which comprise the Classes and Sub-classes Statement of Fund Movements, the Classes and Sub-classes Statement of Assets and Liabilities, the Statement of Base Costs and Related Levies, and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, set out on page 127, FSCS is responsible for the preparation of the financial statements and for being satisfied that they have been properly prepared

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 Practice Board's Ethical Standards for Auditors

This report, including the opinion, has been prepared for and only for the Financial Services Authority, in accordance with

- Section 218 of the Financial Services and Markets Act 2000,
- the FSA Handbook (in particular rule COMP 2 2 5), and
- the FSA-FSCS Memorandum of Understanding (Section 24 to 26)

and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements are properly prepared in accordance with

- Section 218 of the Financial Services and Markets Act 2000,
- the FSA Handbook (in particular rule COMP 2 2 5),
- the FSA-FSCS Memorandum of Understanding (Section 24 to 26), and
- the accounting policies set out on pages 134–136

We also report to you if, in our opinion, FSCS, as designated Scheme Manager, has not kept adequate accounting records for the classes and sub-classes, or if we have not received all the information and explanations we require for our audit

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 mis-statement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the classes' and sub-classes' 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 described in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion

In our opinion the financial statements for the year ended 31 March 2012 have been properly prepared in accordance with

- Section 218 of the Financial Services and Markets Act 2000,
- the FSA Handbook (in particular rule COMP 2 2 5),
- the FSA-FSCS Memorandum of Understanding (Section 24 to 26), and
- the accounting policies set out on pages 134–136

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
19 June 2012

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